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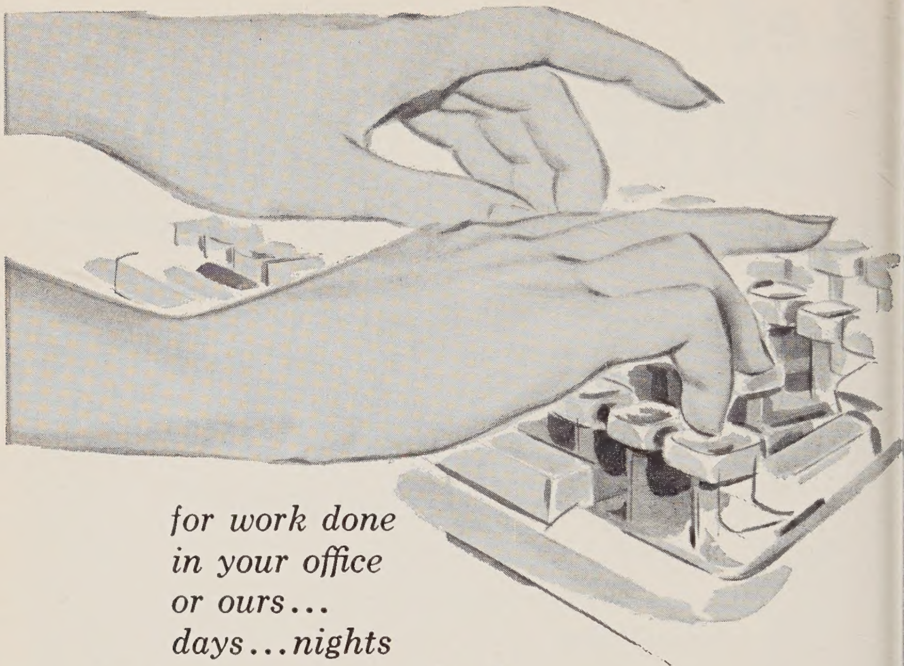

THE ILLINOIS Certified Public Accountant

THE ILLINOIS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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PRESIDENT'S PAGE

)B'SO-LETE . . . (2) Of a type fashion no longer current; out of e; as an obsolete *machine . . . ''*

—WEBSTER.

Every certified public accountant familiar with the process of obso- ence. Substantial losses are fre- ntly sustained simply because new l better ways of doing things are covered. Successful managements quick to replace out-of-date build- s, machinery, equipment, and even n, before they are worn out, pro- ed their work can be performed ter, quicker, or at less cost. Effi- nt production is a must in com- itive business. In these days of onishing technological develop- nt, obsolescence can be a far great- cost factor than depreciation.

Perhaps it might be appropriate to inquire if the same process isn't happening to some of us in the accounting profession . . . ''of a type or fashion no longer current; out of date.'' I suspect that all of us are privately grateful that we do not have to pass the CPA examination periodically in order to retain our right to practice. But, on the other hand, how many of us will take enough time to keep ourselves abreast of the important changes which are taking place in our own professional techniques?

How many of us are too ''busy'', or think we are, with the every day press of following the procedures we learned a generation ago (depreciating over an estimated useful life) without realizing that personal obsolescence is our real danger?

The profession as a whole is trying to keep pace with the expanding requirements of the economy which we serve. Accountancy is recognized as a valuable business tool, but it will not work efficiently in modern situations if it is allowed to become dull, rusty and out of date.

There are many ways, of course, for us to keep ourselves and our services current, efficient and up to date. By keeping informed of the changing requirements, by adopting the modern procedures, and by conforming to

accepted standards as established for the profession by our state and national organizations, we can avoid most of the risk of professional obsolescence. We cannot prevent depreciation, the wear and tear which comes to all of us in time and with use, but there is no excuse for letting ou services become old-fashioned an out-of-date.

Watch for the announcement o the Illinois Society's first Graduat Study Conference to be held in Sep tember. I hope to see you there.

Cordially yours,

THE CPA IN A CHANGING WORLD

By John L. Carey

This is an occasion for congratula-
n—to the candidates who have
t the requirements for the CPA
rtificate. You are now being ad-
tted as qualified members of the
ofession with which all of us pres-
t here tonight are *proud* to be
sociated. The demands of this pro-
ssion are rigorous, and the require-
nts for admission to it have to be
gorous. It is not easy to become a
'A, and anyone who does become
CPA is entitled to public recogni-
n that he is a superior person. He
s shown intelligence, self-discipline
mastering difficult technical sub-
t matter, and, not the least, in-
tinal fortitude in sticking to it. He
ll need to use all these qualities
ain and again in the practice of
profession.

It would be a mistake to encourage
wly qualified certified public ac-
intants to believe that they have
ished with study and learning, and
y now devote their entire attention
capitalizing on the knowledge they
ve acquired. Admission into a pro-
sion is only the beginning. The
'A certificate indicates only basic
hnical qualifications. It confers
y the right to *try* to be successful
professional life. To be successful
the full sense of the word a certified public accountant must keep on learning all the rest of his life. And he must learn about more things than accounting.

It has always seemed to me an interesting question why so many young men and women will work so hard and so long and make so many sacrifices to qualify as professional people. And why do so many vocational groups earnestly strive for recognition as professions? Perhaps it is because the public generally respects and trusts people who are believed to have superior knowledge, skill, and high standards of conduct. And the word "profession" traditionally implies these things. Maybe this public respect and confidence is translated into financial income, since the public is likely to pay more for what it believes to be superior service. At any rate, recognition as a professional man does bring *prestige*, and that in itself may be worth the struggle.

There must be *something* to it, or so many groups would not be fighting for professional recognition. Clergymen, doctors, and lawyers are secure in the public esteem as true professionals. Teachers, engineers, and architects are widely recognized as professionals. Public relations con-

JOHN L. CAREY is Executive Director of the American Institute of Certified Public Accountants. This article is adapted from an address given at the Awards Dinner of the Illinois Society of Certified Public Accountants in Chicago on October 15, 1957.

sultants, chartered life underwriters, labor relations consultants, consulting psychologists, management consultants, personnel consultants, trade association executives, and other groups refer to themselves as professions, and claim professional status. Many of these claims, of course, are not yet widely accepted.

Certified public accountants in this country have been striving for professional recognition for 70 years, and there is no doubt they have achieved a large measure of success. They cannot, however, claim complete success. About a year ago E. H. Griswold, Dean of the Harvard Law School, in an address before a bar association, said that "Certified public accountants have *many* of the qualities of a profession."

What is a profession? What distinguishes it from other kinds of economic activity? A lot has been written on this question. Not all the writers agree in all respects. But they *do* all seem to agree on one thing. This is described by Roscoe Pound, former dean of the Harvard Law School, as "a spirit of public service", which he relates to the additional idea that, in a profession, money-making is incidental. He says, "It is the essence of a profession that it is practiced in a spirit of public service." Dean Pound supported the idea that "A trade aims primarily at personal gain; a profession at the exercise of powers beneficial to mankind."

The Commission on Standards of Education and Experience for CPAs also analyzed the essential characteristics of a profession. One of the major ingredients, this report found, was "an acceptance of the *social responsibility* inherent in an occupation endowed with *public interest.*" This
seems another way of expressing th
spirit of public service to which Dea
Pound referred.

If CPAs have failed to achieve fu
and universal recognition as a pr
fession in every sense of the word,
may be partly because they hav
failed to convince the public that ce
tified public accountants are prim
rily motivated by the spirit of publ
service; that they fully recognize an
accept the *social responsibility* i
herent in their occupation, which u
questionably is endowed with *publ*
interest.

Now, I'm perfectly well aware th
these noble, but highly indefini
phrases like the "spirit of publ
service," and "social obligation,
and "placing service ahead of r
ward," to a great many perfect
sincere CPAs sound like just so mu
hog-wash. What are we talki
about? Plenty of doctors, lawye
and, yes, certified public accountant
seem to have a lively interest in ma
ing money. Plenty of them are dri
ing Cadillacs and otherwise enjoyi
the good things of life. Are we
believe that a true professional m
must work hard simply for the sat
faction of serving his fellow me
with no concern about billings
collections? Or is all this talk abo
public service and social obligati
merely a pious exercise in fuz
thinking by academic people w
have no experience with the realiti
of life?

I have had my own doubts and m
givings, but now it seems to me t
answer lies in an analysis of what
meant by public service and soci
obligation. I don't think this mea
that professional men are expected
work without pay. This is repugna
to common sense, because a man ca
do his best work if he and his fami

e ill-fed, ill-housed, ill-clad—or ill ease! Nor do I think that the idea public service is *fully* satisfied by tra-curricular activities in church, hool, Boy Scouts, fund raising, or mmunity service. I am not depreting this work; it is a part of the ofessional man's obligation to give me of his time to the service of the mmunity. But this alone is not the iole idea.

It seems to me now that the main ea is this: In his daily professional ork, the practitioner, the certified iblic accountant, if you please — ould recognize the relationship of iat he does — what he does every y — to the general public interest, d try to *do his work* in harmony th the public interest as he sees it.

Life has meaning only if each of believes he is part of something gger, and that what *he* does makes lifference in the fate of that *someing*. Each of us has to decide for nself, as best he can, what that nething is. In this decision he may y on religion, philosophy, science, intuition, or a combination of all. ıt having decided, at least tentaely, what he believes, he should en try to conduct himself in a way ıt fits in with the scheme as he sees He should help the group of which feels himself a part toward what regards as progress. He is then ting with conscious purpose, and ıt purpose is not exclusively to ıke money. People have a right to pect professional men to act this y. This, I think, is the deeper aning of the *spirit of public serv*-, or the acceptance of *social oblition*, as one of the essential qualis of a professional man.

Now one of the reasons so many ofessional men — not only certified blic accountants but lawyers, doctors, and others — fail to harmonize their conduct with what they believe to be proper social objectives, or what they believe to be the public interest, is that they have no clear idea of what is going on in the society of which they are a part. They don't have time, or take time, to read about or discuss trends in fields other than their own.

We read a lot today about the dangers of *specialization*. If all our brainiest people become specialists, and allow themselves to be preoccupied with the technical aspects of one field of knowledge, who is going to coordinate their efforts and direct them toward a common goal — *harmonize* them with the common interests of the whole society, the public interest?

Is the coordinating function — the top leadership — to be left to people who lack the intelligence or the character to succeed in some specialized career?

Top business management recognizes this danger, and is beginning to train "generalists," as contrasted with "specialists," for the leadership function.

But a profession, composed of independent practitioners, cannot very well divide itself into specialists and generalists as the terms are used in this context.

To be fully successful, it seems to me, every professional man must be both a specialist (in the sense that he maintains his special technical competence), and a generalist (in the sense that he understands how his work relates to the common interest and the progress of society as a whole).

If this reasoning is sound, you will be a better professional man, and more likely to be recognized as such, if you spare some time for reading

and discussion about what is going on in the world in general, instead of devoting all your reading time to improving your knowledge in the field of accounting, auditing, taxation, and other technical subjects.

Assuming that he has acquired a sufficient general knowledge of his own relation to the world around him, each professional man should then decide what conception of progress he believes in — with what objectives he wishes to identify himself. When he has made this decision, he discharges his "social obligation" — he acts in the public interest (as he sees it) — by *participating* — by conducting himself in such a way, by using his influence in such a way as to help, not to hinder, progress toward the goal which he believes to be good, and by resisting forces which he believes to be evil.

This is all very general. Let's try to bring it down to earth.

I think everyone here can agree on certain basic assumptions about the kind of society, the kind of country, we want to live in.

We believe in freedom and dignity of the individual. We don't believe that the individual's sole purpose is to serve the state.

We believe in private ownership of property. We don't believe in socialism.

We believe in free enterprise and the profit incentive. We don't believe in a planned economy run by an economic dictatorship.

We believe in these principles because we think they have produced— and will continue to produce — a better life for *all* the people, not just a few: higher living standards, universal education, better health, steadily improving working conditions, greater economic security, reasonable time for recreation: in short, opportunity for everyone to live a life of self-respect and self-expression.

Now these ideas are being challenged, and forces are at work — not only abroad, but right here in our own country — to prevent the attainment of the kind of a society we want. The challenge has been presented by Sumner Slichter much better than I can express it, and I would like to read a few quotations from what he has said:

"What, then, is to be the design of the economic world of tomorrow? Will it be a world in which national life is dominated by highly organized groups which use the government in a struggle for group advantage; in which national policies are not really national; a world of parochialism and restrictions; or will it be a world in which economic life is pretty much dominated by bureaucrats through the control of expenditures, sources of information, and power to grant or withhold favors to industries, enterprises, localities and groups; in which the government is jealous of private enterprise, careful not to encourage it lest it challenge the power of the bureaucrats; careful to maintain tax laws that penalize initiative and daring? Or is it to be a world in which each individual thinks of himself first of all as a member of the commonwealth, highly conscious of the interests which he has in common with all other members of the commonwealth . . . in which public policy undertakes, not only to provide some minimum of security against the vicissitudes of economic life, but also to stimulate more vigorously than ever a wide dispersion of initiative, a vigorous spirit of enterprise, and a large amount of innovation?"

Mr. Slichter says he thinks that victory will go to those who are striving to have the common interests — concern for the well-being of the other fellow — placed higher and higher in the scale of values.

"At any rate", he says, "we can feel fortunate that we live when we do; that we have an opportunity to help mold events when things are in such a state of flux; when decisions so momentous are being made . . . of all generations, we are the most fortunate. We live in an epic age; we play in by far the greatest drama the human race has ever staged; and *we* determine whether the outcome is tragedy."

What has all this to do with certified public accountants? The kind of society which I think all of us here want, and which Mr. Slichter wants, has certain essential characteristics.

The savings of the people must be accumulated and made available as capital, through investment or credit, for development of productive facilities. This is possible only if intelligible, credible, and useful financial statements are available, so that those who invest or lend the money can form a reasonable judgment as to the risks and probable rewards involved. Certified public accountants can provide such financial statements.

Free enterprise means free competition, as contrasted with monopoly which encourages lower production and higher prices. We think competition encourages more and better goods and services at lower prices. But this presupposes efficient management, which in turn requires cost control, budgeting, financial planning, and other aids which professional accountants can provide.

We have embraced a system of taxation based on ability to pay. Those with high incomes pay more than those with less incomes. The measurement of annual income is not easy. The system can work only if the taxpayers voluntarily assess themselves and pay the right amount of tax. But this task is so complex that the assistance of certified public accountants is indispensable, particularly in the determination of *business* income subject to tax.

The free enterprise society embodies certain checks and balances and safeguards against the use of economic power in a manner contrary to the common interest. Examples are collective bargaining under law; laws against price discrimination and unfair trade practices; regulation of certain industries, such as utilities and railroads, which by their nature cannot be fully competitive, and many, many other rules.

The government agencies charged with the administration of these laws must have various kinds of information, including costs, capital investment, earnings, financial position, and other accounting data. Certified public accountants are often called on, in one way or another, to assist in the preparation of such data, or explain it, or testify to its validity.

We cannot escape the conclusion, I think, that without the services of the accounting profession, the processes of our free-enterprise society would be seriously impaired, if indeed they could continue at all.

We cannot escape the fact, therefore, that the accounting profession is endowed with public interest, and that it must acknowledge a social responsibility.

The Commission on Standards, to which I referred earlier, says that one of the characteristics of a profession is "the existence of an *organization*

devoted to the advancement of the *social obligations,* as distinct from the *economic interests* of the group."

The concern of the accounting profession as a whole with its social responsibilities is reflected in the activities and attitudes of the professional societies. The Illinois Society of Certified Public Accountants and the American Institute of Certified Public Accountants are voluntary associations of CPAs who join together in cooperative efforts to improve their ability and to discharge their social obligations.

Right now, within your profession, a debate is going on — and it sometimes get hot! — about the responsibilities of certified public accountants for financial reporting principles and practices. Has the profession the sole responsibility for the basic rules of corporate reporting, or must this responsibility be shared with corporate management, government, and others interested? Should the profession adopt as a practical objective the idea that financial reports of various corporations should be comparable? Should the profession take the lead in making clear in financial statements the effect of declining purchasing power of the dollar — and, if so, how?

There is also a steady drive to improve and clarify the standards of *auditing,* which underly the professional opinion of the certified public accountant, and to extend *compliance* with existing auditing standards. At the annual meeting of the Institute two weeks from now, members will be asked to vote on a proposal to adopt a new rule of professional conduct, incorporating the principle that a certified public accountant shall not permit his name to be associated with a financial statement unless he either expresses an opinion or specifically disclaims an opinion and says why.

Serious thought is being given to the *ethical* standards which should govern the conduct of certified public accountants in *tax practice* and in rendering services to *management,* in addition to the already well defined ethical responsibilities as independent auditor of financial statements.

Methodical studies have begun in the area of management services by certified public accountants — the ways in which CPAs can be most helpful, particularly to small business, in improving efficiency, economy, and, therefore, profitability.

The Institute has taken a public position in support of federal legislation providing for independent audits of employee pension and welfare funds. Despite the fact that this might be regarded as a self-serving position, and despite the fact that it evokes the disapproval of some elements of the business community, the Institute has taken this position in the belief that the white light of full disclosure is the best safeguard against financial irregularities, and that the accounting profession has a duty to come forward and speak its mind when socially important questions of this type are before the Congress.

The Institute has helped over a long period of years to eliminate inequities and ambiguities in the income-tax laws and regulations by putting at the disposal of Congress and the Treasury Department the collective experience and knowledge of the certified public accountants. In a recent article in the Harvard Law Review, Stanley Surrey, a former Treasury official, complimented the accounting profession on its contri-

butions to maintenance of the *integrity* of the tax laws.

These are only a few illustrations, which could be multiplied many times, of the concern of the professional societies of CPAs with the relationship of the CPA's activities to the social responsibility of the profession and the public interest of the country.

But the efforts of the professional societies will have significant impact on public opinion only if their policies and attitudes are *reflected in the day-to-day work of their individual members.* What 30,000 individual CPAs do obviously will affect other people's thinking far more than what the American Institute of Certified Public Accountants does.

The *individual* who accepts the CPA certificate must accept the social responsibility which is implicit in the states' recognition that the public interest warrants the exercise of the police power involved in issuing the certificate.

As I see it, the individual CPA can discharge his social responsibility, can identify himself with the public interest, and at the same time can contribute to the progress of the society of which he is a part, only by resolving:

(1) Never to permit his name to be associated with financial statements unless he has complied fully with the auditing standards established by the profession.

If bankers and investors ever lost faith in the reliability of financial statements audited by certified public accountants, there would probably be a demand for government auditing of private industry. This, in my opinion, would be a long step toward the end of private enterprise.

(2) Never to take refuge in ambiguous language which may cloud any doubts he may have as to the fairness of financial representations.

If the public ever came to believe that CPAs generally hid their real opinions behind weasel words, confidence would be impaired, the flow of capital would be slowed, and either the banks would do their own auditing or the government would take over.

(3) Never to sign a tax return or represent a client in a tax controversy unless he believes his client's position is fair within the spirit, not merely the letter, of the law.

If tax chiselling in this country ever got to the point that it has in some other countries, the income tax would become a mockery, the government's revenues would decline, public morality would be corrupted, and our entire system might fall apart.

(4) Never ignore an opportunity to help a client to manage his business more efficiently and more profitably.

The competitive, free enterprise system presupposes the existence of a reasonable number of competitors. It could hardly exist if complete control of industries were concentrated in the hands of only one or very few companies. Small business must be kept alive and growing, and this means that small business must be as economical and efficient as large business, to compete effectively. Small business cannot employ on a full-time basis accounting and management experts as large companies can. The CPA and other professional consultants have to help small business to manage efficiently.

(5) Never to participate in the presentation of financial data for any purpose which he does not believe

fairly shows what they purport to show.

If government agencies came to feel that they could not rely on financial data presented by CPAs they would tend to build up their own staffs of examiners to check all financial data presented to them. This would slow down the transaction of necessary business between government and citizen, and add to the cost of administering the laws.

Do I hear someone thinking that these resolutions are completely unrealistic? I know many CPAs, including some of the most successful, who live their professional lives by this code. I believe that the great majority of CPAs live by these principles to the best of their ability. I know as well as you do that there are some who do not.

The Institute has received, even within recent months, specific complaints from banks, government agencies, and others, which indicate that some certified public accountants have an extremely primitive conception of their responsibilities, and as a consequence reflect discredit on the whole profession.

But I sincerely believe that CPAs as a group will gain wider recognition as a true profession, and greater opportunities for service and reward, only to the extent that they adopt these five precepts — and thus discharge their social responsibility.

But beyond this, I think that each individual, for himself, would have more fun, would get more satisfaction from his daily tasks, and would enjoy wider respect among his neighbors — if he had for himself a clear conception of the kind of world he wanted to live in and tried his best, in his own work, to do the things likely to bring about that kind of world.

In closing, may I repeat my idea, which some of you have already read, of a professional creed for certified public accountants, which is modeled on the preamble to the canons of ethics of the American Bar Association.

"In America, where the free enterprise economic system rests largely on voluntary investment of the people's savings; where the government is supported largely by voluntary self-assessment of taxes on income; where faith in the system is sustained by the accountability of economic institutions to those who have a legitimate interest in their affairs; where creative competition requires all business managers to have timely and accurate financial information, it is peculiarly essential that the system of financial reporting be so maintained that the public shall have absolute confidence in the soundness and integrity of statements of costs, profits, financial position, and other accounting data. It cannot be so maintained unless the conduct and motives of certified public accountants are such as to merit the approval of all just men."

EQUITY AND THE INTERNAL REVENUE CODE

By John Philip Goedert

I. Introduction

Nature of Topic

The title of my discussion is purposely misleading. "Equity and the Internal Revenue Code" could probably more correctly be restated as "inequity in the Internal Revenue Code." However, this subject of inequity is an elusive one. I am sure that there are as many definitions for the word "inequity" as there are people in this audience.

We are all human. We all tend to protect ourselves. We all wish to preserve what we have—and if we are ambitious—to get more of the same. We therefore feel that we have a vested and a just right in any provisions of the tax law that help us to reduce our tax bill. We resent any interference that a tax benefit we enjoy may be inequitable, and we naturally greatly resent any attempt to remove that benefit.

But the benefit enjoyed by *someone else,* that is a different matter. That could very well be inequitable, and should therefore be examined very carefully. In all probability, that benefit enjoyed by someone else is really a "loophole," and should be removed in the interests of getting a more equitable tax law.

Now I am a taxpayer just the same as I assume the rest of you are. I am also human and subject to the same failings. But I also happen to be a professional man who has been trained by background and experience to be independent and objective. It is in that spirit that I have approached my examination of the inequities in the tax law.

Recent Developments

During the past several years you may have noticed a mounting wave of criticism against our present system of income taxation. Articles have appeared in various popular magazines pointing out the severe inequities of the present tax law. Public figures have made speeches condemning the income tax law and urging its repeal. A third party movement was even initiated with the repeal or drastic modification of the income tax law as an integral part of its platform. Influential members of Con-

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gress have urged that a study be made of the tax law directed towards making it more equitable in its application to the average taxpayer.

More recently, the American Institute of Accountants, through its Committee on Federal Taxation, advocated the creation of a special Hoover-type commission to make an extensive study of our present method of income taxation. The Institute Committee referred specifically to over 100 provisions in the income tax law which involved special tax benefits for various selected groups of taxpayers.

With the recent developments as a background, I would like to discuss the possibility of obtaining simplification and some equity in our present Internal Revenue Code. I would like to review the terrific erosion that our taxing base has been subjected to, an erosion that is the result of the enactment of a multitude of special exemptions and deductions, an erosion that minimizes the tax liability for some taxpayers, maximizes it for others, and by its very nature, results in the need for excessively high tax rates for all.

II. The Background of Our Present Tax Law

The Sixteenth Amendment

Before becoming too specific, it might be wise to review the background of our tax law. It has its basis in the sixteenth amendment to our Federal Constitution. Although we had income tax laws levied in this country prior thereto, for various reasons they were discontinued or declared void by the courts. The enactment of the sixteenth amendment, however, permitted a progressive income tax to be levied without regard to the proportionate requirement theretofore embodied in the Constitution. In its initial stages, the law was very simple. It consisted of a total of 18 pages—think of that—only 18 pages! The tax rates on individuals started at 1 per cent and went as high as 7 per cent. The tax on corporations was 1 per cent. Even with such a simple law, and with the rates as low as they were, we still found many anguished cries raised against confiscation, usurious taxation and complicated tax requirements.

The Internal Revenue Code of 1954

The 1954 Internal Revenue Code (a law so complex that it requires 929 pages of fine print and involves over 3,000 changes) was supposed to remove inequities, clarify ambiguities and close loopholes.

Let us take a look at this 1954 code. Some inequities were removed, that is true, but they were removed for the most part, not by deletion from the Code, but by giving similar special treatment to other groups—that is, if there was enough pressure brought to bear upon Congress to make the adjustment. In other words, we solved one inequity by creating another.

The new law was supposed to effect simplification and clarify ambiguities. But have you read any part of it lately? There are so many ambiguities remaining in the law that regulations are still not complete, even though it is almost three years since the law was enacted.

The law was supposed to close loopholes. It did close a few, but it left so many more open, and opened so many more new ones, that during the last few years we have seen the rise of financial geniuses who admittedly built up industrial empires solely by judicious use of what they describe as "gimmicks" in the tax law.

Without question, the 1954 Internal Revenue Code is the most complex taxing statute any country ever saw, and probably the most unfair, and yet it is merely the reflection of some 40 years of legislative drafting, of some 40 years of compounding inequity upon inequity, and of 40 years of enacting special provision after special provision in a vain attempt to minimize inequities that were asserted to exist in the law.

III. Special Statutory Provisions

Let me see if I can give you some idea of the problem by presenting examples of special tax treatment. To attempt to catalog all the special statutory provisions in our present law would involve an interminable task. However, it would appear desirable to give you some examples.

Special Legislation for Individual Taxpayers

Have you heard of the Mayer provision? Possibly not. It is very interesting. The ordinary rule requires that retirement income paid in a lump sum is taxable to the employee as ordinary income in that year. Mr. Mayer wanted to retire, but he did not want to pay the high tax rates that would otherwise be applicable. I am sure that his tax advisors could eventually have worked out some involved device that, under the statute—complicated as it is—would have given Mr. Mayer a capital gain. And yet they found it much easier to go to Congress and get legislation enacted that was so special and restrictive in its terms that it would apply to only one man in our entire county of 175 million people.

This very special provision stated that if a taxpayer had been employed for 20 years and had held a right to future profits for 12 years and had the right to receive a percentage of profits for life, or for a period of at least five years after termination of his employment, then in that case—and in that case only—his retirement compensation would be subject only to capital gains taxation. (They did everything but spell the man's name!)

I mention this provision not because it involves any great loss of tax revenue, but because it epitomizes the whole area of special legislation that has so weakened and distorted our whole tax structure. How much more special can you get than a provision of the statute that applies to only one man in the whole nation? And what about the millions of taxpayers who get no such special treatment? Yet it is all perfectly legal. Moreover, you can find precedent after precedent for this approach.

Of a little broader application, but equally specialized, is the capital gain treatment granted to inventors and their financial backers. Why an inventor should receive the benefit of capital gains, but an author or an artist be denied it, is beyond my comprehension. They each produce creative works. Presumably they are each engaged in their project over a long period of time. None of them receives what might be considered recurring income but each is dependent upon the profits from the sale of his works. Yet one receives the capital gains treatment. The others are taxed on the basis of ordinary income. The only conclusion that can be reached is that the political power of inventors is far greater than that of writers or artists. This is somewhat contrary to the axiom, "the pen is mightier than the sword."

Profitable Charity

Special treatment of charitable enterprises has been a fundamental concept of our revenue legislation for many years. In effect, the government undertakes to subsidize charitable activities on the theory, apparently, that the citizens will have to stand the cost anyway, therefore why should it not be done directly by tax subsidies? Accordingly, the charitable motives of the average citizen are encouraged by the government with appropriate tax credits.

Do you suppose, however, it was ever the intention that an individual taxpayer should actually profit as a result of his charitable activities? Or, to put it in other words, is there in any way the semblance of a charitable motive if an individual taxpayer could have a net increase in dollars in his pocket after his so-called "charitable" gift? Do you think that is impossible? Consider for a moment the situation of the high-bracket taxpayer with substantially appreciated property. Under certain conditions, if he makes a contribution of the property, he can end up with more dollars net than if he sells the property. Is that true charity?

Another example of the favored tax status of charitable organizations being twisted and distorted to the advantage of individual taxpayers lies in the use (or perhaps misuse) of the charitable organization or foundation to purchase properties and businesses. You are all probably familiar with this device and it should require no further explanation.

Industry Preferences

Various industries have, from time to time, obtained for themselves special tax treatment in an effort to minimize the impact on them of otherwise extremely high tax rates. We are all thoroughly familiar with percentage depletion as it applies in the oil industry. We are all aware of the asserted economic justification giving rise to this provision.

But are you aware of the extent to which the concept of percentage depletion has been extended or distorted, in an alleged attempt to obtain so-called equity for groups other than the oil industry? For example, do you know that practically everything even remotely related to a mineral (other than turf and water) is subject to percentage depletion at some rate? Do you know, for example, that clam shells and oyster shells are properly entitled to 5 per cent depletion?

Coal is the subject matter of 10 per cent depletion, but rather interestingly for reasons almost directly contrary to those underlying percentage depletion in the oil industry.

An underlying purpose of percentage depletion in the oil industry was to recognize the economic circumstances involved in the discovery and production of oil pools and to stimulate the necessary development and wild-catting activities. The coal industry, however, came along and said that the growth of the oil industry was affecting them adversely and they needed relief in the form of percentage depletion. The picture is obvious. One industry needs percentage depletion to help it grow, and the other industry gets percentage depletion to help it resist the growth of the first.

Fringe Benefits

One of the characteristics of our present hodge-podge of special taxation is the fact that one group of taxpayers will always tend to disregard the special benefits they enjoy, when they are criticizing the benefits of

another group. We are all human. The special benefits enjoyed by others are unfair and inequitable and should be challenged. However, the benefits we enjoy ourselves are economically sound and must be preserved at all costs. Employees, generally, are no exception.

Corporate executives as employees have in recent years come to enjoy very substantial tax-free or tax-deferred fringe benefits. During the last 10 years the growth of pension and profit-sharing plans has been nothing short of phenomenal. Deferred compensation plans have grown like mushrooms, even though with only very hazy statutory justification.

Fringe benefits, legitimate and otherwise, are found in every nook and cranny. Some are merely theoretical, and some have been approved by the courts. If, for example, you advertise your corporate milk business by showing your African movies, it is perfectly all right to take a safari and charge it off as expense on the corporation's tax return. At least, it has been so held. Extensive expense accounts for supposed business traveling quite generally allow adequate latitude for social activities.

And when the expense reports are analyzed, it is amazing how extremely little it costs to take your wife with you. The Treasury Department is, of course, trying to restrict this avenue of tax-free dollars, and has issued some very positive-sounding rulings, but the practicalities of the matter are against them.

Your taxpayer without comparable benefits is very disturbed by this state of affairs. He resents very much being the only member of a very social group, in Florida in January, who is not charging his expenses, at least in part, to Uncle Sam. Perhaps he is even considering changing his tax advisors to see if he, too, cannot work out a similar arrangement.

Organized labor also finds it highly desirable to protect its position by attacking the very many loopholes (as it calls them) which it finds in the law. At the same time, they are somewhat unaware, shall we say, of the astounding growth of fringe benefits which labor has acquired for itself during the past few years—and, of course, all or at least partially tax-free.

These benefits include the ordinary retirement and pension plans, accident and hospitalization insurance, sickness insurance, paid medical expenses, paid life insurance, low-cost social and country clubs, free meals, purchase discounts—you make your own list. While there is some question about the practicality of taxing all these various fringe benefits, nonetheless the fact remains that here we have substantial economic values received by a group of taxpayers without being subjected to tax.

The Investor's Tax Advantages

During the past several years we have heard considerable compassion expressed for the plight of the "poor investor." Double taxation, if you were to believe what you heard, was practically driving him out of business. The capital gains tax was making it impossible to build up capital funds.

Is the investor really so adversely affected? On the contrary, is he not really specially favored by our present tax laws? The investor has hundreds of opportunities to avoid paying ordinary income tax rates and to realize gains subject only to a maximum of 25 per cent—and despite all the talk to the contrary, a maximum tax rate of 25 per cent is still rather

attractive. In fact, it is the goal of many of us.

In addition to the ordinary security transactions, an investor can also utilize the Code provisions with respect to timber and coal royalties. Municipal tax-exempt securities are also still available, despite the fact that it is becoming harder to justify their tax-exempt status. Certain types of insurance policies present a very attractive tax shelter for your investor.

If an investor is not satisfied with all the other avenues available to him, he can always invest his money in one of the fast-growing Canadian investment funds. These devices offer possibilities that have not even been touched as yet.

The Marital Deduction

Perhaps the most outstanding example of discriminatory special legislation in the Internal Revenue Code lies in the well-known marital deduction. This, of course, affects most of us very directly. Right here you have a perfect example of trying to eliminate one inequity by adding another. For years we had the situation where certain community property states gave to their residents unparalleled income tax advantages. A husband and wife could split their income for tax purposes and consequently their tax payment was substantially less than that of the citizens in the non-community property states. The discrepancy and inequity were clear to everybody. Of course, there were other factors that made the community property situation not entirely a one-way street, but they were somewhat overlooked in considering the Federal income tax advantages.

Assuming that this was a real inequity, the obvious and logical approach would have been to enact legislation denying to married couples in a community property state the right to divide their income for Federal tax purposes. That would merely put a citizen of California, for example, on the same basis as a citizen of Illinois. But that is not the way we do things. Instead of changing the tax status with respect to the citizens of approximately 8 states, our Congress went ahead and gave the citizens of the other 40 states a similar income splitting privilege.

The testimony before Congress while that provision of the law was under consideration makes rather interesting reading. It was stated, for example, that the marital deduction would encourage young couples to premature marriage without too much forethought. As if young couples needed any such encouragement! It was complained that the marital deduction discriminated against bachelors and, of course, the obvious answer was that they had so many other advantages, that they *should* be discriminated against.

More recently, the complaint was made that income splitting works inequitably in the case of a widow or widower, because not only are they split from their spouse, but they are immediately deprived of the right to split their income. How was that corrected? In the usual manner. Another special section was enacted, giving widows and widowers two additional years of income splitting. And, of course, for some time we have had income splitting applicable by the alimony route. Again we have inequity. Alimony paid in one form is tax-deductible. Just change the form slightly and it is not tax-deductible.

Exemption for Blind

You are probably all aware of the fact that a blind person gets an addi-

tional personal exemption of $600. Hardly anyone would be so unfeeling as to criticize this exemption. Our sympathies are all with the individual so afflicted.

But are the blind the only ones entitled to our sympathies? Or, expressed in another way, if our sympathies for the blind lead us to grant them a special $600 exemption, are we any less sympathetic towards the deaf, the paralytic, the consumptive? Is an individual with only one arm not a handicapped person? And if he has no arms does he not merit special consideration?

I hope that I am making my point clear, and it is a very simple one. If we are going to recognize in our tax law certain inequities and attempt to enact special provisions to favor certain types of taxpayers, then in all fairness we must consider every possible situation involving an inequity. You can readily see where this would lead.

Summary, Specific Statutory Provisions

I could go on at great length attempting to list additional examples of special tax treatment and special rights enjoyed by various classes of taxpayers. Dealers in tax-exempt bonds, for example, enjoy a very special tax benefit. Operators of oil properties can actually sell a part of their ordinary income and realize a capital gain. Many taxpayers can realize a double deduction for tax purposes by borrowing money and purchasing securities to be used to make a charitable contribution. Cooperatives enjoy a peculiarly favored tax position. The list is almost endless, but I think that the point I am trying to make should be clear without going into further detail.

We cannot follow the route we are now on much longer. If we do, the special exemptions in the law will become more complicated, more difficult to understand, more difficult to apply, more inequitable, and more offensive to the great masses of taxpayers who do not believe that they derive any real benefit from all the special tax treatment.

IV. Possible Alternatives

Current Public Attitude

The present situation is rapidly reaching the point where the average taxpayer is becoming very conscious of his position. He is not only antagonized by the complications of the law, but when he finds that another taxpayer will pay substantially less taxes on the same income as his, simply because of special provisions of the law, then the resentment of the average taxpayer becomes acute.

You have to keep in mind the fact that our entire system of income taxation is based upon the concept of self-assessment and confession of liability. With over 70 million taxpayers, our system could function in no other way. It would be absolutely impossible to have enough tax collecting officials even to start to do the task. With this in mind, it becomes clear that something must be done before our tax law reaches the point where the average taxpayer has nothing but contempt for it. Public confidence in our Federal taxing procedures must be restored.

Retain Income Tax

I am not advocating that the income tax law be abolished. I find it difficult to agree with those who take that position. I feel that they might very well be accused of irresponsibility, unless they, at the same time, present workable alternatives.

Whether we like it or not, the revenue needs of our government are so great that it is extremely doubtful that any other means of levying taxes would be anywhere near as fair and equitable, as could be the case with a properly designed income tax law, involving the principle of progressive tax rates.

However, those who publicly take the position that the income tax law is killing itself (and I am sure you have all seen newspaper and magazine quotations to that effect) are coming closer to the truth. The thought has been expressed that the public attitude towards the entire tax-gathering system is rapidly reaching the point where it might be absolutely impossible to enforce the law adequately as it now stands. Just what is the solution?

Tax Reduction

First of all, let me note that in trying to devise a solution, I will not at this time discuss the most palatable of remedies, rate reductions, nor will I attempt to outline the reasons why this nation needs tax revenues of over $70 billion a year. It is undoubtedly true, a reduction in the tax rate would help to minimize the dollars involved in some of the existing inequities, but it would not remove the inequities themselves. Out of some 70 million taxpayers, approximately 60 million have taxable income only in the first tax bracket. It is, therefore, obvious that even a small rate reduction would involve a substantial loss of revenue; yet at this time it would probably be too little to minimize the inequities that have developed over the years.

Sales Tax

One alternative that has been suggested many times is the sales tax. The simplest form of sales taxation would be a level rate assessed on every transaction occurring within the country. Would that be a fair method of taxation? Would that in any way recognize the "ability to pay" concept? Would that in any way recognize the basic inequities which we know exist?

Of course, you could exempt items such as food in order to favor the basic necessities of life of the working man. But where would you draw the line? Would you also exempt food in a luxurious night club? You could exempt clothing because the small wage earner would have to bear the greatest part of such a tax. But would you also exempt the elaborate uniform of the member of some particular social lodge? In essence, for a sales tax to be workable, it would have to be uniform in its application. There is no question where the burden would lie, and that is right upon your great mass of citizens who are in your middle and lower economic groups. The "ability to pay" as a concept would be lost sight of forever.

Property and Other Taxes

The gross receipts tax has also been advanced as a solution. Such a tax is already in use in some of our states. However, a tax on gross receipts taxes the transaction itself and fails completely to recognize the actual profit that the transaction may create. Ability to pay, as a principle of taxation, is disregarded entirely.

The same objections would be raised to a property tax and certainly to practically any other type of similar taxing statute that does not have reference to the production of income as a factor.

Rate Limitation

Rate restrictions by constitutional

enactment have been proposed. Attempts have been made during the course of the past 20 years to restrict taxation by the Federal Government to a maximum of 25 per cent. A restriction of the rate at the present time, however, without also reconsidering all of the inequities and all of the special rights and exemptions of the present tax law would merely result in chaos. The same inequities would exist, the revenue of the country would be sharply reduced, and any attempt to effect a concomitant reduction in the scope of government would be politically suicidal.

Accordingly, while inflexible restrictions of tax rates are not the answer, any attempts to impose such restrictions will undoubtedly open up the entire question of the adequacy and equity of our present tax law.

Revision of the Income Tax Law the Only Solution

It does not take too much study and reflection to reach the conclusion that the basic structure of our present form of income taxation is the only real answer. In retaining the income tax law, however, we must take steps to limit those special situations which have the effect of removing revenue from the tax base. We must limit the number of groups and taxpayers who receive favored treatment. We must simplify the structure of our tax laws, and in the process, we must restore the confidence of the public generally in our present tax system and demonstrate that it is as fair and equitable as taxation can ever be.

An Independent Commission

Just how is this re-examination and revision of our income tax law going to be effected? Of course, it should be noted that many things have already been done. Certainly the Internal Revenue Code of 1954 reflects at least an attempt to correct some of the more inequitable situations and at the same time to close some of the more obvious loopholes.

At the present time, various Congressional studies are being conducted into certain aspects of our taxing statutes, but this is not a comprehensive review. Moreover, would such a complete review be a proper subject for consideration by a legislative body? Can a group of elected legislators divorce themselves entirely from the special considerations of their constituents? Can they be entirely objective in evaluating the various special legislative provisions which have for many years resulted in favored tax treatment for certain types of taxpayers and certain specific industries? Can they correct one individual inequity without creating others? Can they do this task on an item-by-item basis?

I am afraid that most of us will continue to be doubtful about the extent of the objectivity and independence that any legislative study can achieve. A little reflection will lead most of us to the conclusion that to be really effective, such an analysis of our taxing statutes must be complete and thorough and not piecemeal. Moreover, such an analysis must be conducted by a completely independent commission. Such a commission must be composed basically of outstanding individuals engaged in the field of taxation as accountants, attorneys or educators.

The commission should be completely non-political in character, should have no restrictions imposed upon its functioning, and should not be confronted with an arbitrary time

schedule. The sole objective of such a commission should be to develop a specific outline of a fair and equitable taxing statute that will produce the revenues needed by this great country of ours with a minimum of inequity and a maximum of fairness for all taxpayers.

The American Institute of Accountants has already advocated the appointment of such a commission. Some of our outstanding legislators have publicly recognized the need for such a commission. One in particular has emphasized that the elimination of the multitudinous provisions for exceptions and special tax treatment for favored taxpayers or groups would sharply increase our taxing base. An increased tax base would permit rate reductions without affecting total revenues. Other organizations with a degree of cognizance of the problem have also publicly advocated that such a commission be adopted. The fact remains, however, that a great number of taxpayers, although aware of the problem, still have no real concept of the approach to a solution. It is in that connection that we, as accountants, must assume some responsibility for leadership.

V. Conclusion

Our Interest in the Problem

At this point you might be wondering just what our interest should be in this whole problem. After all, it would appear to be true that we can easily be the beneficiaries of our present complicated and inequitable tax system. The greater the complexity of the tax law, the more numerous are the opportunities for tax savings with adequate and thorough tax planning.

Would it not be more logical for us to remain silent and let the well-organized pressure groups of the country take advantage of the political aspects that are involved?

The greater the activity of these various organized groups, the greater the complexity of the tax law, the greater is the opportunity for tax savings and the greater the area for tax planning. But is that the answer? Should we remain silent?

Our Responsibility

I submit, however, that no conscientious, informed professional man has any right to remain silent. To deny any responsibility is merely to state that our only concern is our own selfish material welfare. Do we not have a civic responsibility as informed citizens? Do we have an obligation to our fellow citizens of this country of ours? Let us be realistic. If informed, professional men such as ourselves do not assume any responsibility for objectivity in this regard, just exactly who will? Certainly it will not be the labor unions. Certainly it will not be either of the two political parties. Certainly it will not be any of the trade associations.

The realization that something must be done and the willingness to take the lead in doing it must come from those citizens who are sufficiently informed and sufficiently interested to bring to the problem a certain fair-minded and objective sense of equity. That means we must stop thinking only of our own short-range material interests and start assuming a civic responsibility as citizens of this great country.

Those of us engaged in professional practice have a special problem with regard to our clients. What if they are deprived of some special benefit that they now enjoy? Before answering that, we must first attempt to decide to which of our clients we will

give preference. Do not forget, the benefit enjoyed by one client in effect is paid for by another client. How do you choose between them? They do not all enjoy the same benefits. And what about the clients of tomorrow and the day after? At this point, we do not know what their interests are going to be.

To state it in another way, the selfish, long-range personal and material interest of all of us practically requires that we assume the civic and moral responsibility, that we assume the leadership in trying to obtain a more equitable tax law, a tax law that levies an assessment on the public in proportion to their ability to pay, with a minimum of special favor, special treatment and special exemptions to special interests.

Only if that is done will we restore public confidence in our system of taxation. Only if that is done will we have equity in our Internal Revenue Law.

CPA—The Symbol of Qualifying to Practice or an Academic Degree

By Richard S. Claire

The title of this paper may sound so philosophical to many that I feel obliged to give reassurances even in the first sentence that I intend quickly to become very down-to-earth and practical in what I have to say. I can assure you that I have no interest in a discussion of anything as stratospheric or futile as the discussions of old that revolved around questions such as how many angels could dance on the point of a needle. It has been true in the past that few if any of us have devoted much thought or time to the question of the generally held meaning of the CPA designation, and we have spent probably even less time in deliberation over the question of what the meaning of the term should be. Many of us have rocked along for years taking for granted that the CPA designation is a highly coveted title that has a rather single and universal meaning to everyone.

I have developed a more than casual interest in the meaning of the CPA title for two principal reasons. In the first place, I served as a member of the independent Commission on Standards of Education and Experience for the CPA. In the second place, I have been somewhat active in public accounting affairs in Illinois where, unlike most other states, the CPA designation is an academic degree and does not confer on the holder the right to practice public accounting.

The Commission, Expediency and the Academic Degree Concept

In recent years and particularly within the rather small circle of members of the Commission on Standards of Education and Experience for the CPA it has become apparent that the meaning of the CPA title is much more significant than we may have supposed. Furthermore, it has a variety of meanings. We have also discovered that it is practically impossible to recommend standards of education and experience prerequisite to the attainment of the CPA designation unless we first agree upon a single and preferable meaning. I well recall one of the early meetings of the Commission on Standards of Education and Experience for the CPA at

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which this question about the meaning of the CPA designation was put out on the table. If there were 20 members present, I am sure we had 20 different concepts. In fact, it became obvious to all who were present that efforts to bring the meaning sharply and quickly into focus would probably be futile. In fact, the subject rather disappeared for a while from subsequent discussions of the Committee. The rank and file members of the committee heard practically no more discussion of the point until the report of the Commission was in the final stages of drafting. At that point it became clear to some of the members of the Commission that the entire report, as proposed, rested on the thesis (an unwarranted assumption as some members would characterize it) that the CPA designation should henceforth, upon the issuance of the report by the Commission, become an academic degree with the ultimate elimination of experience as a prerequisite. The Commission took an Alice-in-Wonderland approach by decreeing that the term "certified public accountant" would henceforth have the definition attributed to it by the Commission. Frankly, little or no regard seems to have been given to a long-recognized and fairly widely held concept by the public and business community that a CPA is one who is qualified by training and experience to serve the public by performing certain services. The Commission's abrupt about-face in defining the CPA title was a very convenient—in fact, a rather necessary—turn in order to provide support for the detailed recommendations with respect to education and experience that certain of the members of the Commission wanted to make.

Before I continue further with my remarks, particularly as they relate to the report of the Commission on Standards of Education and Experience for the CPA, I think I should make one point very clear. Since the issuance of our Commission report, I have found any number of people leaping to the conclusion that the five dissenting members of the Commission, four of whom are currently in practice, find more wrong with the report than they find right. I think this is not so, and I can state emphatically that it is not the situation in my own case. I think the recommendations of the Commission as they pertain to education are very commendable. In fact, I would have been willing to increase the educational requirements even beyond those that are recommended by the Commission. The part of the report that I have difficulty with is that part that recommends the elimination ultimately of experience as one of the prerequisites to the granting of the CPA certificate. I should hasten to add at this point that I am no more satisfied than others with our failure to measure experience qualitatively under our present system, but I would rather try to improve the quality of this experience than drop it entirely as a requirement. In other words, I would strongly urge that we continue to look upon the CPA designation as one that tells the public and the business world that the one who is entitled to use that designation is qualified to practice and not, as the Commission would make of it, qualified to *enter* practice. The Commission's recommendation makes the CPA title an academic degree somewhat like it is at the present time in Illinois but without the public safeguards of the Illinois law.

The CPA Title in Illinois

Another reason, in addition to my Commission membership, why I have developed more than a passing interest in this general subject is that I have my place of business in Illinois and have been rather closely associated through my work with the Illinois Society of Certified Public Accountants with the processes of granting CPA certificates and licenses to practice public accounting. Perhaps I should describe our rather unique situation in Illinois very briefly since few outside of our State seem to understand it. In Illinois the CPA certificate is granted by the University of Illinois. It is an academic degree in a very practical, if not legal, sense and does not entitle the holder to practice public accounting. In order to practice public accounting in Illinois, one must first obtain a CPA certificate, must then obtain one to three years of practical experience in the employ of a licensed accountant, pay an annual registration fee of $5, and obtain a license as a public accountant or PA. If you have read the report of the Commission on Standards of Education and Experience, you will recognize that there is considerable similarity between the meaning of CPA as it would be if the long-range recommendations of the Commission were to be followed and the meaning of the initials at the present time in the State of Illinois. In other words, we in Illinois have had a sort of preview of conditions as they would be if the report of the Commission were to be put into effect. We have seen, employed, and observed in action considerable numbers of completely inexperienced university graduates who hold CPA certificates. Frankly, I agree with the Illinois law that these people as now prepared are not qualified to hang out their shingles and start practice on their own. Furthermore, as I gaze into my crystal ball and see the educational machinery of the future, I find the accountant who has nothing but academic training still unprepared to certify financial statements for any who seek his services.

Good Practical Experience vs. More Classroom Instruction

As you read the long-range recommendations made by the Commission, you will note that they all rest on a central conclusion that classroom instruction given in large doses and over a long enough period of time constitutes adequate CPA preparation. In other words, the added classroom work can take the place of experience. Such a conclusion is an extremely difficult one to reach if we continue with the present concept of the CPA as one who is qualified to practice, so it is not at all surprising that the Commission adopted the new thesis and assumption that the CPA designation should hereafter be merely a label indicating that one has qualified to enter practice. The Commission never did announce what, if any, designation would be used by the accountant who is qualified to make an audit, but presumably the qualified and the hopeful neophyte would both be CPAs. Under such circumstances the business public would have even greater difficulty than it does today in distinguishing between the qualified and the less qualified — all carrying the same CPA label.

Viewing the proposals of the Commission in relation to practices in other professions, dropping the experience requirement would bring our professional requirements more into

line with those presently prevailing in the legal profession, and would take us away from the practices now being followed in the medical and dental professions. As a general rule, a doctor or a dentist is not allowed to hang out his shingle until he has first done a bit of practicing under the eyes and direction of an experienced person, frequently one who is concurrently engaged in public practice and teaching in the university. I have heard that the Bar Association is even now investigating the possibilities of adding an experience requirement to the prerequisites to one's privilege of holding himself out to the public as qualified to practice law.

The Unsupported Concept — The Academic CPA

As I read and re-read the dissenting opinions in the Commission's report, one conclusion becomes unmistakable. Practically every dissenting viewpoint would vanish into thin air if there had been no shifting of the present concept of the CPA designation as a stamp of qualification to practice to the new concept of it as an academic degree and a right to enter practice. It is for this reason that I urge you to keep before you this shift of interpretation as reflected in the Commission's report before you decide whether you like better the majority or the minority position.

Even as a member of the Commission, I have never been able to put my finger on either the birthplace or the birth date of this idea that everyone would be better off if CPAs were to be academic beginners qualified to *enter* the practice of public accounting but not yet necessarily capable of practicing it. The report is completely silent on the origin of this concept, and therefore you can find neither comment nor argument in support of the Commission's assumption that the meaning of CPA should be changed. Apparently we just assumed that we knew best on this particular point and with pencil in hand proceeded to write.

We did do a little bit of research and some of it was not particularly supporting to the majority commission view. For example, the Commission sent a questionnaire to the staff members of a number of firms inquiring about the nature and value of the experience that they had received since they entered public accounting. The questionnaire was an excellent one and required nearly a full day of a man's time to complete. Although the sample was unfortunately rather small, the questionnaires having been furnished to and completed by some 30 men, nevertheless, the answers of the men were very interesting. The men who replied to the questionnaire were from various sections of the country, they were from large firms and small firms, and they had been in practice from one to five years. The men were asked to express their views as to the relative contributions that had been made to their development in the profession as between experience and academic training. In other words, and looking back on things, could they have gotten from their academic training without substantial change in the organization and presentation of courses the equivalent of what they had been able to obtain from experience? Out of 25 replies, 12 said, "No"; 12 said, "Possibly"; and one said, "Yes, but only by substantial course changes." In my opinion, the questionnaire results should have been summarized for and noted by the Commission in its deliberations.

There are those, I am afraid, who have the impression that the report of the Commission was written after very extensive research and discussion. As a practical matter, I think we were a bit short on each of these counts. The committee met on three occasions and spent five days in getting the committee organized, discovering differences of opinion, and discussing the subject in a general way. The executive committee met thirteen times for a total of fifteen days. The Study Director visited each member of the Commission to get his views on the subject and relate them to the draft of the report of the Commission. I think it would have been much more effective if each member of the Commission would have had an opportunity to hear and discuss in conference the views of every other Commission member. Bouncing ideas back and forth face to face with others who also are concerned with a particular problem frequently has a way of distilling a better solution.

I think I have said enough at this point to indicate why some of us on the Commission feel that the report rests in part on a false foundation and why we are going in the wrong direction if we try to convert in the public's mind the present belief that a CPA is one who can practice to the proposed idea that a CPA is one who has qualified to learn how to practice.

A Preferable Approach to a More Practical Answer

What should have been the foundation on which to build the Commission's report and what kind of facts should have been gathered by research before writing it? The answers to these questions are reasonably clear to me.

In the first place, I see no reason for changing the present concept of the CPA designation. Years of effort and education of the public have been exerted to bring us to the point where we now stand. We have tried to tell the businessman for many years that if he wants to have financial statements examined, a tax return prepared, or some systems work done, he should think immediately of a CPA. We have told the businessman that one who bears the CPA stamp is one who can help him with his business affairs, one whose counsel he should seek, is able, because of his training and *experience,* to make significant contributions to the solution of many of the businessman's problems. Now if we follow the thesis outlined in the Commission's report, we will have to go to our friend in the business community and warn him to be ever alert hereafter to our changed definition of CPA. In all fairness, we should point out to this businessman that hereafter his choice of CPA has been made more difficult. Some CPAs are just fresh out of the university, some have a limited amount of experience, and some have extensive experience. If he happens to be a man who believes that he would rather entrust his affairs to a man of some experience, he would be well-advised to always inquire of the CPA whether he is the "qualified to enter practice" variety or whether he is the "qualified to practice" variety. I see no reason for adding this confusion to the businessman's problems of getting help in the accounting and financial areas.

I believe that the Commission should have been much more concerned than it was about the public interest and the profession's responsibilities to the public. One of the pur

oses of the Commission was stated rom the start to be the development f uniform legislation covering eduational and experience requirements or the CPA. I think that practically very one of our accountancy laws tarts with a preamble indicating that he regulation of accountancy and he determination of the qualification f those who may enter the practice s a matter of vital public interest. As members of the profession we hould be constantly striving to improve that profession in its service to he public, and in my opinion, that bjective should have been so fully nd constantly before our Commision that it would have been obvious o all who read our report that we neasured all of the education and xperience requirements for the CPA n the light of how they might be beneficial to the general public welfare. It is unfortunate that the report contains the statement, "The Commission does not believe that this (the elimination of the experience requirement) constitutes any real danger to the public." Just think how much more Commission leadership would have been displayed by a positive rather than negative concern over the public interest.

Of course, we had an added reason why we should have been particularly sensitive on this point. Here was a group almost evenly divided in numbers between educators and practitioners studying the education and experience requirements for entry into a profession. Anyone who wished to be critical could say that it was a foregone conclusion that the educators on the Commission would be urging more education and the practitioners would be urging more experience. We had every reason then to demonstrate beyond any shadow of doubt that we had been objective and concerned first with the public interest in our deliberations and our conclusions. I find only one very passing positive reference in the entire report to this question of public interest.

It seems to me from the start, and I unsuccessfully argued this point at each meeting of the Commission, that the Commission should investigate and learn the facts about the kind of services the public is demanding and getting from the public accounting profession before prescribing the experience and education requirements of those who wish to render professional service. I think we should set our educational or experience requirements in some relation to the work of the profession as it actually is and probably will continue to be instead of setting them in a vacuum and with little or no knowledge as to just what the activities are that make up this public accounting profession.

It is easy to make the general observation that the nature of the services rendered by the CPAs vary markedly among firms and practitioners and are changing significantly year by year within a single firm. An increasingly high percentage of many practices consists of rendering management and tax services with less emphasis on auditing. Specialization is the trend in our profession. Clients know better than to expect one and the same person, simultaneously, to be really expert in accounting and auditing, taxes and management services. This indicates to me that perhaps it has become inappropriate to continue to expect the holder of the CPA certificate to be expert in all three areas. Perhaps we need three separate sets of educational and ex-

perience qualifying standards, three different examinations and three different symbols to indicate expertness in the three fields of accounting and auditing, taxes and management services. In fact, the real public interest in licensing professional accountants may lie only in the area where financial statements are audited and certified. In my opinion, the Commission should have addressed itself to these questions.

The defenders of the Commission report argue the present experience requirements to qualify as a practicing CPA are not being eliminated by the report since each person who would qualify as a CPA under Commission standards would first have to spend about three months as an intern with a public accounting firm. In other words, two years of experience is undesirable but three months of it is so important as to be required. Surely no one who has ever been on either the employee or employer end of an internship arrangment lasting three months would contend that this three months exposure to public accounting transformed an academic accountant into one qualified to hang out his shingle and start signing opinions with respect to the examination of financial statements. The value of a short internship of this type lies more as a means of acquainting the college man with what goes on in public accounting than as an experience to bring him from boyhood to manhood as a practicing public accountant. Interestingly enough, the Commission's recommendation here that the young man get some experience as an intern comes rather unexpectedly right after reading in the report comments that imply that experience is generally so low or unpredictable in quality as to contribute little or nothing to the development of the CPA.

On this question of the elimination of the experience requirement the majority position seems to be that they are not eliminating experience, they are merely moving it out of the office of the practitioner and into the laboratory of the university. This is not outside the realm of possibility. It has been done to a considerable extent in medical schools and dental schools, but the possibility of a similar development in the field of accounting seems to me to be so remote at this time that it would have been better for the Commission to recognize it as a possibility instead of recommending it as a future reality. In the first place, there are some limitations as to the degree to which certified public accountants can make available for classroom use the very practical material that they have in their files. We have no cadavers in the public accounting profession that can be made available to the budding professional man. Furthermore, in order to bring reality into the classroom, practitioners would have to spend more time in the classroom or professors would have to spend more time in practice, or both. I am afraid it will be a long time before it becomes as traditional in our field as it now is in the field of medicine for top-notch practitioners to devote a good portion of their time to the instruction of young men in professional schools.

Conclusion

The conclusions that I reach can be stated rather simply and briefly:

1. As evidence that we are keeping faith with the business community and the public in general, let's retain the present concept of a CPA as one who is qualified to hang out his

ingle and conduct a practice. The PA examination is now set at a vel, I believe, to measure the quali-ations of the successful candidate service medium sized clients in a edium sized community. That defi-ition suits me — why abandon it for omething of dubious validity and sefulness?

2. Let's keep ours a practicing rath- than an academic profession and etain an experience requirement for hose who would call themselves PAs. This experience should be easured qualitatively as well as uantitatively. I'm not particularly concerned over whether this experience is obtained before or after taking the CPA examination. My only concern is that it be obtained before authorizing one to hold himself out to the public as qualified to practice on his own.

3. Press for the adoption in the relatively near future of the excellent recommendations of the Commission with respect to education for the profession. However, put all of these recommendations in the framework of the CPA who has the ability to practice instead of merely an academic preparation for entry into practice.

The Internal Control Standard and Program Planning

By Hussein A. Sharaf and R. K. Mautz

"There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted."[1]

The importance and nature of the relationship between internal control and the audit program is accepted as axiomatic in accounting. Almost every writer who deals with this subject points out that the effectiveness of the system of internal control must be taken into account in determining the amount and type of audit work to be undertaken, that if the internal control is good the audit work can be reduced and if it is weak the audit program must be expanded. However, little more than this is ever presented. A detailed explanation of the procedure followed in reviewing internal control is customary, but almost nothing is available with respect to the actual modification of an audit program. Very little aid is given to the practitioner to help him in making specific adjustments.

The avoidance of any real discussion of the ways in which an audit program might be modified in a given situation probably stems from the belief that audit program planning is a matter of judgment on the part of the auditor, and that guides to the exercise of judgment might work to the detriment or elimination of this essential professional function. That is, if the interrelationship of internal control and the audit program were reduced to a standard plan, a formula, or even an illustrative case, a tendency to routinize auditing might result. Practitioners might feel safest following as closely as possible any authoritative pattern rather than planning each program on its merits. In the long run this could only work to the detriment of the profession, and perhaps it is for this reason that so little has been written to show the influence of internal control on the audit program.

But another approach to this problem is possible, one that will stimulate and encourage the development of audit judgment rather than stifle it. Supporting the actions of an auditor are various reasons why he does what he does. These reasons provide

[1] *Generally Accepted Auditing Standards*, American Institute of Accountants, 1954, p. 13.

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e theory that justifies his practices. audit practices are good, there is und theory to support them; if dit practices are bad, they must st on weak or unsound theory. Conlered in this sense, theory is a pracal working tool. Any auditor who nows why he does what he does is to at extent a theorist. If those who ve broad experience in planning dit programs to match individual ternal control situations would ate in simple terms the alternatives ey find available and why they oose one rather than another, we ould soon have available to all who re interested a body of extremely seful auditing theory. Students, beinning practitioners, even experinced auditors faced with a new and nusual situation would find in this ody of theory a guide to program lanning, not a pattern or a mechanial aid to substitute for the exercise f professional judgment, but an inication of the alternatives they hould consider in the development nd exercise of judgment.

The various case studies on auditng procedure published by the Amercan Institute of Accountants supply n opportunity to illustrate the point. f we analyze each of these for weakesses and strong points of internal control and for the auditor's response o such weaknesses and strong points, t should be possible to draw concluions from these responses indicating n general terms the main principles that govern the adaptation of audit programs to internal control situations. Incidentally, these same principles, stated somewhat differently, should provide some of the criteria on which any given audit program might be reviewed and appraised.

If this analysis is to be useful for the purposes suggested, each conclusion should be summarized in the form of a brief sentence with sufficient support or explanation to justify its inclusion. Commencing with a statement of the basic relationship of internal control to the audit program and proceeding on through the subordinate conclusions which appear justified, based on the several case studies, we arrive at the following summary.

1) The system of internal control provides the basis for planning and modifying the audit program, and the existence of specific strong points and weaknesses in the system of internal control should be reflected in the audit program.

This is so generally accepted as to be axiomatic in program planning, yet it expresses the fundamental relationship on which all other conclusions rest.

2) However effective the system of internal control may be, there exists a "minimum" audit program which must be applied.

Although this conclusion may appear to be somewhat inconsistent with (1), it is justified on the grounds, first, that certain tests must be applied to determine the existence and effectiveness of the internal control, and second, because audit standards quite properly require that sufficient competent evidential matter be obtained to afford a reasonable basis for an opinion.

3) Program planning is essentially a problem of allocating scarce resources as effectively and economically as possible among the competing demands of not only a specific audit engagement but all examinations making up the auditor's practice.

Enlightened self-interest, as well as a recognition of true professional responsibilities, calls for a minimum of waste and a maximum of efficiency in audit work. A practitioner is as open to criticism for performing twice as much work as necessary as he is for doing only half of that re-

quired. The resources available to him include the time and talents of his staff, both of which are limited in themselves and may be subject to an additional limit in that there is a maximum cost beyond which an audit examination ceases to be economically desirable. His task is to use these resources without waste and as effectively as possible.

4) In the allocation of audit resources, the significance of the errors possible under the given internal control situation is of primary importance.

The significance of a possible error depends on the extent to which the error, if committed, would influence the financial statements and the likelihood that the error would lead to and/or permit the coverage of fraudulent acts by employees.

5) Modification of the minimum audit program to meet the needs of a specific internal control situation can be obtained by:

a. Appropriate distribution of time.

b. Appropriate assignment of personnel.

c. Appropriate selection of techniques and procedures.

The time factor can be adjusted in at least three ways. First, the total time devoted to the audit may be increased so that additional attention can be given to areas in which the internal control is unsatisfactory. Second, if weaknesses in control are balanced by strong points, the allocation of time to different phases of the examination may be revised to allow more attention to weak areas and less attention to stronger ones. Finally, the auditor will adjust the timing of the verification steps applied to weak areas of control in order to obtain more reliable evidence than he otherwise would require. For example, if inventory controls and perpetual inventory records are sound, the physical inventory can be observed by the auditor two or three months prior to the closing date to lessen the pressure of the year-end closing on both the client's staff and the auditor. If the inventory controls and records are not satisfactory, however, the auditor should insist on a year-end physical inventory to give him more reliable balance sheet information.

In assigning personnel among various examinations and to the different phases of any given examination, more experienced, better trained, and more capable staff members should be assigned, insofar as possible, to those portions of the work most likely to turn up errors and irregularities. This is a problem of personnel management that should be emphasized by every supervisor and senior as well as by the partner or manager in charge of personnel.

Techniques which are considered satisfactory in normal circumstances may be replaced by others which are capable of producing more decisive evidence where signs of weakness in internal control are detected. Negative type confirmation of accounts receivable, acceptable in some cases, might be replaced by positive confirmations if there is real doubt that control over cash receipts or any other phase of accounts receivable accounting is adequate. Of course, the extent of application of the selected techniques might be expanded, but this may be considered more a function of time than of selection of techniques and procedures. If it is decided to confirm all customers' balances rather than a portion only, the basic decision is really one of time, although it may be associated with a decision to use positive rather than negative confirmation requests.

6) Even in the absence of specific weaknesses in internal control, the application of audit procedures and the search for com-

mentary evidence through supplemental ocedures will be extended in certain innces such as the following:

a. In areas where the transactions are particularly subject to fraud. (Examples are receipts of currency by mail, unclaimed wages, petty cash disbursements.)

b. To functions which hold a standing temptation and therefore tend to invite dishonesty and possibly collusion. (Examples are custody of valuable assets, commission calculations, approval of expense accounts.)

c. For transactions sufficiently unusual in nature not to be provided for in the ordinary routine of internal control. (Examples are sales of scrap, sales of retired fixed assets, income from securities, employee's loans.)

d. To accounting processes controlled by employees about whom the auditor gets an impression of moral weakness, excess spending habits, etc., through his observations during the course of his examination.

7) A major factor to be considered in etermining the desirability of extending udit procedures is the length of time durg which the auditor has examined the ompany and the degree of intimacy atined.

The first audit, of course, is usually e most elaborate and detailed in rder to acquaint the auditor with e client's practices, procedures, nd history. Similarly, the introducion of a new activity by a client calls or more careful scrutiny of that peration than does the continuance f an old and familiar practice.

8) Although many deficiencies in an internal control system can be met by a easonable adjustment of audit time, careul use of personnel, or selection of proceures, other deficiencies may require proram changes that are not economical or ay be of such a nature that they cannot e remedied under conditions as they exist. In these cases a disclaimer of opinion may be required.

9) Review procedures should give special attention to weaknesses in internal control and to the program modification required thereby. The attention of the reviewing auditor should be directed specifically to:

a. Recognition of the principles of program planning discussed in this article.

b. Supervision of personnel during fieldwork adequate to safeguard against deviations from the planned program, laxity in the performance of verification procedures, and negligence in reporting significant findings whether they be actual errors or additional weaknesses in internal control.

The purpose of adapting an audit program to fit the system of internal control is to bring about either one or both of the following: (1) the discovery of any unintentional errors and fraudulent actions indicated as possible, (2) restoration of the confidence and mental satisfaction in the accounting data which were shaken by signs of unreliable internal control. In working toward this goal, the auditor strives to maximize the effective utilization of the time and experience of his staff and to minimize the risk undertaken in expressing an opinion as to the fairness of the financial statements. Program planning calls for the exercise of shrewd and experienced judgment, time and time again; such judgment is best developed and most effectively used when supported by an awareness of the basic relationship of internal control to audit program planning and the principles upon which modification of an audit program to suit a given internal control situation should be carried out.

TAX COMMENT

Conducted by the Committee on Taxation of the Illinois Society of Certified Public Accountants

EMPLOYEE'S WIDOW VS. COMMISSIONER

Widows of employees upon whom gratuities have been bestowed by the deceased's employer have been battling the Commissioner of Internal Revenue since 1949 (Louise K. Aprill, 13 TC 707 [1949], CCH Dec. 17,275), and, although the Commissioner has been defeated, he hasn't (at least at the date of this writing) thrown in the towel by an acquiescence to any of the decisions rendered on cases involving such payments received after January 1, 1951.

In L. K. Aprill, 13 TC 707, CCH Dec. 17,275 and again in A. M. MacFarlane, 19 TC 9, CCH Dec. 19,235, the payments, which were held to be tax free, were received by the widows prior to January 1, 1951, and in order to be consistent with his 1950 ruling that all such payments received after January 1, 1951 would be taxable (I.T. 4027, 1950-2 CB 9) the Commissioner acquiesced to the Court's decisions in these two cases. However, the Commissioner has failed to aquiesce to any such decision in cases involving such payments received by the widow after January 1, 1951.[1]

[1] Since this article was written, the Commissioner of Internal Revenue, on November 12, 1957, withdrew his acquiescence and substituted his non-acquiescence to L. J. Aprill, 13 TC 707, CCH Dec. 17,272. This might indicate that the Commissioner is attempting to strengthen his position relative to the excess over $5,000 of gratuitous payments made to widows of employees under the 1954 Code.

These battles, which have becom more frequent in the last two year have all been over the question taxability of voluntary paymen made to the widows by the employe of their deceased husbands. Th Commissioner has been contendin that the payments to the widows wer for past services of the deceased em ployee and as such are includable i gross income of the recipient. (I.T 4027, 1950-2 CB 9). The widows, o the other hand, have been contendin that such voluntary payments ar gifts from the employers and as suc are specifically excludable from gros income under Sec. 22(b)(3) of th 1939 Internal Revenue Code or Sec tion 102 of the 1954 Internal Revenu Code, where applicable.

History of Question

The question of taxability of voluntary payments by employers to widows of deceased employees has been bobbing up ever since the income tax began. No problem, however, existed in earlier years since the Treasury Department, in years prior to 1949, ruled that such payments were gifts or gratuities and although deductible by the payer, were not subject to Federal income tax in the hands of the recipient. The first such ruling (T. D. 2090) was issued in

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4. In 1921 this 1914 ruling was
ffirmed by O. D. 1017, 5 CB 101,
again, in 1939, by I. T. 3329,
9-2 CB 153, at which time the
nmissioner very clearly stated:

When an allowance is paid by an or-
ganization to which the recipient has
rendered no service, the amount is
deemed to be a gift or gratuity and is
not subject to Federal income tax in
the hands of the recipient.''

nd here is where the incidents
an which led up to the subsequent
les between the widows and the
nmissioner. Employers began to
on the unequivocal language of
. 3329 and provided for volun-
payments to widows of em-
ees in the form of gratuities in
gnition of the past services ren-
d by the deceased employees.

lthough the Commissioner's reg-
ions had provided since 1920
t. 32, Reg. 45) that . . . ''however,
alled pensions awarded by one
*vhom no services have been ren-
d* are mere gifts or gratuities and
not taxable,'' I. T. 3329 had a
rent and more liberal connota-
in that it ruled that such pay-
ts would be nontaxable to the re-
nt if the *recipient had rendered
ervices* to the payer.

ecause of the subsequent wide-
ad use of such tax free payments
idows of deceased employees, the
missioner in 1950 issued I. T.
, 1950-2 CB 9 which reads as
ws:

t is the position of the Bureau that
respective of a 'plan', voluntary or
voluntary, definite or indefinite, pay-
ents of the type herein considered
nstitute taxable income, and it is
eld that payments made by an em-
loyer to the widow of a deceased offi-
r or employee, in consideration of
rvices rendered by the officer or em-
oyee, are includible in the gross in-
me of the widow for Federal income
x purposes.'' (Applicable to pay-
ents received after January 1, 1951.)

Thus the Commissioner, by issuing I. T. 4027, intended to reverse his position entirely and subject to tax the gratuitous payments received after January 1, 1951 by widows of deceased employees. The Courts, however, have not agreed with the Commissioner and have rather consistently held for the widows. An analysis of substantially all of the pertinent cases since the issuance of I. T. 4027 in 1950 disclosed that the Courts completely ignored this ruling until in 1955 in Arthur W. Hellstrom, Est., 24 TC916, CCH Dec. 21,191 wherein the Tax Court completely rejected I. T. 4027 when it said:

> ''We think the result reached herein is amply supported by our previous holdings in Louise K. Aprill, 13 T.C. 707 (1949) (Dec. 17,275); and Alice M. MacFarlane, 19 T.C. 9 (1952) (Dec. 19,235). The respondent argues that the above-cited cases are not controlling here because decided prior to his promulgation of I. T. 4027, supra. We, however, do not ascribe the far-reaching effect to that ruling which he does. We understand his ruling to mean that if the amounts paid to a deceased employee's widow were not a gift, but were payments for his past services, they constitute ordinary income to the widow. The respondent, obviously, cannot by administrative ruling tax as ordinary income a payment which the payor made and intended as a gift.''

In the same year I. T. 4027 was again referred to, but this time under different circumstances. In *Fisher* v. *U. S.* 129 F. Supp. 759 (D.C. Mass.) 55-1 USTC Par. 9326, an employer had agreed to pay $8,000.00 as retirement compensation, in twelve monthly installments of $666.66 each, to a retiring employee. Approximately seven months after his retirement, the employee died at which time the employer had paid him only $4,666.62 of the $8,000.00 promised. After the employee's death, the employer voted

to pay the balance of the $8,000.00, or $3,333.36, to the widow of the employee. The widow treated the total of the payments made to her as a gift and when the Commissioner assessed additional tax on the theory that the payments should have been included in income, she paid the tax and sued for a refund. The Court, in deciding that the payments were additional compensation, held as follows:

> ''Plaintiff relies on I. T. 3329, 1939-2 Cum. Bull. 153 (1939 CCH Par. 6538), as holding that 'When an allowance is paid by an organization to which the recipient has rendered no service, the amount is deemed to be a gift or gratuity and is not subject to Federal income tax in the hands of the recipient.' This was modified in 1950, however, by I. T. 4027, 1950-2 Cum. Bull. 9 (1950 CCH Par. 6208), which provides that the essential factor is not whether services were rendered by the recipient but whether services were rendered to the employer. So far as I. T. 4027 holds that payments may be compensation if made in consideration of services to the payor, even though these services were rendered by someone other than the recipient, it is merely declaratory of existing Law. *Bausch's Estate* v. *Commissioner of Internal Revenue, supra; Varnedoe* v. *Allen*, 158 Fed. (2d) 467 (46-2 USTC Par. 9395). Plaintiff seems to interpret I. T. 4027 as holding that such payments are necessarily compensation and not gifts, regardless of the employer's intention, and argues that it is to that extent invalid. It is not necessary to pass on this contention, since the finding here is that the Association intended the payments to Mrs. Fisher as compensation and not as a gift.
>
> ''Plaintiff relies also on the cases of *Hahn* v. *Commissioner of Internal Revenue*, 13 T.C.M. 308, CCH Dec. 20,249 (M); *MacFarlane* v. *Commissioner of Internal Revenue*, 19 T.C. 9 (CCH Dec. 19,235); and *Aprill* v. *Commissioner of Internal Revenue*, 13 T.C. 707 (CCH Dec. 17,275). All three of these, of course, rest upon findings based on the facts of each case. In both Aprill and MacFarlane there was an express finding that the directors in voting the p ments acted in reliance on I.T. 33 supra, and intended to make payme which under that ruling would be free to the recipient. The facts in Ha more closely parallel the present ca There is, however, a significant disti tion. In Hahn the employee contin to work for the employer until his de and the payments made to the wid were then considered for the first ti Here Fisher had retired and the Asso ation had voted to pay him a defi sum over the course of a year as co pensation. When he died within year, it was simply voted to pay unpaid balance of that compensation his widow.''

The only other mention of I. 4027 in a similar issue was in Be Rodner, D.C. N. Y., 57-1 USTC P 9392 wherein the District Court a completely rejected I. T. 4027 by ing it and saying in respect there

> ''I take it that this means that, e though the transfers to the widow 'gifts in recognition of' rather t 'payments for' former services, to the language used in a somewhat ferent connection in *Bogardus* v. *C missioner*, 302 U.S. 34 (37-2 USTC 9534), supra, the amounts thereof stitute taxable income. As above i cated, I disagree.''

Thus it is apparent that I. T. 4 has not achieved the Commissione intended purpose in attempting tax voluntary gratuities paid widows of deceased employees.

In order to determine a pattern similarity in the various cases viewed in this study, the colum schedule accompanying was p pared. (See pp. 38-39) This sched contains only cases in which the p ments to the widow were held to gifts. In those cases which held oth wise, the payments were considered not being entirely voluntary, and this reason they are not included the schedule.

From this analysis the follow significant facts were determined

) *Commissioner's Failure to Acquiesce.* (See Footnote [4] to Schedule.)

Although of the various cases ex- ined, in which the payments were eived after January 1, 1951, all se that were strictly on voluntary ments with no previous plan, tract, or agreement and where no vices were rendered by the widow, Tax Court, and District Courts five different Districts held such ments to be gifts, the Commis- ner has not aquiesced. This failure acquiesce has caused undue liti- ion expense to both the Govern- nt and the taxpayers, and un- ibtedly has resulted in taxation of h gratuitous payments wherever taxpayer widow was too meek to test the Commissioner's action or re the amount involved did not rant litigation.

To Whom Payments Made.

'ayments were made direct to ows except in one case, Est. of nk J. Foote, 28 TC 58, CCH Dec. 06. In this case the Court noted, ever, that the employer's reason making payment to the Estate ner than to the widow was that in way the intended beneficiaries of deceased's bounty would share in payment in the proportion as de- d by the deceased employee.

is notable that the Courts, almost out exception, stressed as one of r reasons for considering the pay- ts to be gifts that the payments made to the widow and not to estate of the employee.

Amount of Payment.

ne amount of the payments didn't to cause the Courts any concern no special significance seemed to laced thereon in so far as the tax tment to the recipient was con- ed.

(4) *Relationship of Amount of Payment to Employee's Salary*

In those instances where the amount of the employee's salary was disclosed, the relationship of the amount of the payments to the employee's annual salary ranged from a low of three months' salary to a high of three years' salary. But see footnote (3) to the Schedule.

(5) *Significance of Deduction Taken by Employer.*

Although mention was made in all but three of the cases of the fact that the employer deducted the amount of the payments as business expense, no significance seemed to be placed thereon. In fact, in Arthur W. Hellstrom Est., 24 TC 916, CCH Dec. 21,191 the Court said:

> "In view of the other evidence in the record, we attach no particular significance to the fact that the corporation claimed deductions on its returns for the amount paid to petitioner. Nor do we attach any significance to the fact that the amount paid to her was the amount of salary her husband would have drawn had he lived. Alice M. MacFarlane, supra. Gifts to widows of deceased employees are frequently determined by the amount of salary which the employee drew or would have drawn."

The Commissioner's regulations have consistently, since regulations 45 under the 1918 Act and up to and including Regulations 118, Sec. 39.23 (a)-9, provided as follows:

> "When the amount of the salary of an officer or employee is paid for a limited period after his death to his widow or heirs, in recognition of the services rendered by the individual, such payments may be deducted."

This provision has been omitted completely from the "proposed" regulations under the 1954 Code, Reg. Sec. 1.162-10 relating to Trade or Business Expenses under Sec. 162 of

	Amount of Gratuity	Relationship to Employee's Annual Salary	How Treated by Employer	Policy of Employer with Respect to Other Deceased Employees	Special Corporate Resolution	% of Stock Owned by Employee and Family	Was Widow or Beneficiary Employee or Shareholder	Employee's Position	Date of Death	Taxable Years Involved
Est. of Frank J. Foote, 28 TC 58, CCH Dec. 22,406, 5-29-57	$ 9,968.83	Balance of Annual Salary	Deducted	None	(b) Yes	Com. Pfd. 50%	Shareholder	President	8– 9–51	1951
Emma P. Jackson, D. C., Ore., 57-2 USTC Par. 9713, 5-8-57	24,000.00	40% (12 Mo. Payments)	Not disclosed	Not disclosed	(a) Yes	100 81½	No	President	2–14–53	1953 and 1954
Est. of John Hekman, TCM 1957-70, CCH Dec. 22,363 (M), 4-30-57	18,000.00	41% of Annual Salary	Deducted	7 Other Such Gratuities	None	Not disclosed	No	President	11–23–51	1951 and 1952
Eleanor A. Bankston, D. C. Tenn. 57-1 USTC 9626, 3-29-57	30,000.00	1 Year Salary (18 Mo. Inst.)	Deducted	None	(b) Yes	89%	Employee without compensation. Inherited husband's 89%.	President and Chief Exec.	6– 2–51	1952
Ethel Gregg Mann, TCM 1957-49, (3)	36,000.00	(3)	Deducted	None Indicated	Not disclosed	56 Shares of Parent Co. %	No	Exec. V.P.	5–15–41	1951, 52 and 53
Blanche C. Chapman, CCH Dec. 22, 305, 2-28-57 (3)	18,000.00	(3)	Deducted	None Indicated	Not disclosed	Not disclosed	No	Vice-Pres.	9– 8–45	1951, 52 and 53
Betty Rodner, D. C., N. Y. 57-1 USTC Par. 9392, 2-6-57	13,000.00	Lump Sum Equal to 50% of One Year's Salary	Deducted as Business Expense	8 Other Such Gratuities	None	Not disclosed	No	Vice-Pres.	6– 3–52	1952
Mrs. Creighton C. Graves, D. C. Tex., 56-2 USTC Par. 10,045, 11-23-56	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	President	Not disclosed	1951, 52 and 53
Erla F. Bledsoe, D. C. Ind., 57-1 USTC Par. 9211, 9-28-56	35,000.00	Not disclosed	Deducted	None	(b) Yes	Not disclosed	No	President	3– 1–50	1951 and 1952
Lilith M. Bauer, D. C. Ind., 57-1 USTC Par. 9210, 9-28-56	44,000.00	Not disclosed	Deducted	None	(b) Yes (1)	Not disclosed	No	President	1–23–52	1952
Flora B. Slater, D. C. Calif., 56-2 USTC Par. 9892, 7-11-56	7,500.00	3 Mos. Salary	Deducted as Salary	None	(c) Yes	Not disclosed	No	Vice-Pres.	4–26–53	1953

		and Bonus	Deducted	None	Yes	closed	No	Treasurer	11– 8–50	and 52
Arthur W. Hellstrom Est., 24 TC 916, CCH Dec. 21,191, 8-19-55	28,933.32	Balance of Annual Salary	Deducted	(2)	(a) Yes	36%	Shareholder	President	2–20–52	1952
Marie G. Haskell, 14 TCM 788, CCH Dec. 21,133 (M), 7-19-55	54,000.00 } 3 Yrs. Sal. 18,000.00 } 1 Yr. Sal.		Deducted $36,000.00 0	None	(a) Yes	Controlling Interest	Director and Vice-Pres. without Compensation and Shareholder	President	11–12–47	1951
Ralph W. Reardon Est., 14 TCM 577 CCH Dec. 21,060 (M), 6-15-55	8,000.00	Balance of Annual Salary	Not disclosed	None	Not disclosed	Not disclosed	No	Not an Officer	2–28–51	1951
Ruth Hahn, 13 TCM 308, CCH Dec. 20,249 (M), 3-31-54	4,912.25	Balance of Annual Salary	Deducted	3 Other Such Gratuities	(a) Yes	None	No	Branch Manager	8–11–51	1951
A. M. MacFarlane, 19 TC 9, CCH Dec. 19,235 (Acq.), 10-9-52 (4)	66,955.00	$15,375 Balance of Annual Salary; $51,580 Prior Yr.'s Bonus	Deducted	None	No	None	No	Business Manager and Asst. Secretary	10– 9–44	1944
L. K. Aprill, 13 TC 707, CCH Dec. 17,275 (Acq.), 11-8-49 (4)	36,000.00	2¼ Years' Salary (27 Mo. Payments)	Deducted $30,633.35	None	(a) Yes	82.4%	Inherited Husband's 82.4%	President	1– 6–42	1944

FOOTNOTES TO SCHEDULE

(a) In recognition of the services to the Corporation by employee during his lifetime.

(b) Out of respect and esteem for employee and appreciation for his services.

(c) As further consideration for the past services of the deceased.

(1) Upon widow's request for financial assistance.

(2) Board of Directors' minutes recite . . . "and in conformity with the policy of this corporation to make reasonable provision for surviving dependents of deceased officers and employees, although it is under no obligation to do so . . ."

(3) Although this case relates to income taxes of the widows for the years 1951, 1952, and 1953 only, it appears from the information cited in the case that the employer began making payments to the widows upon the death of their respective husbands. No mention is made of any discontinuance or interruption between dates of death and December 31, 1953. Accordingly, if it can be assumed that such payments were continuously made from dates of death to December 31, 1953, the approximate payments to the respective widows would be as follows:

Officer	*Date of Death*	*Monthly Payments to Widow*	*Computed Total to December 31, 1953*	
			Months	*Amount*
Daulton Mann	5–15–41	$1,000	151	$151,000
John W. Chapman	9– 8–45	500	99	49,500

Each of the officers was receiving a salary of $25,000 per year.

(4) In L. K. Aprill, 13 TC 707, CCH Dec. 17,275 and again in A. M. MacFarlane, 19 TC 9, CCH Dec. 19,235, the payments, which were held to be tax free, were received by the widows prior to January 1, 1951, and in order to be consistent with his 1950 ruling that all payments received after January 1, 1951 would be taxable (I. T. 4027, 1950-2 CB 9) the Commissioner acquiesced to the Court's decisions in these two cases. However, the Commissioner has failed to acquiesce to any such decision in cases involving such payments received by the widow after January 1, 1951. (See note on first page of this article.)

the 1954 Code. The Commissioner, however, in Rev. Rul. 54-625, 1954-2 CB 85, and the Rev. Rul. 55-212, 1955-1 CB 299, has specifically ruled that payments to widows of deceased employees are proper deductions.

> "Where a corporation on the accrual basis obliges itself to pay to the widow of a deceased employee, in periodic installments over a period of years, an additional amount to cover compensation for past services rendered by such employee, such amount is generally deductible as a business expense for the year in which such liability is incurred. However, where such payments are contingent upon the widow's remaining alive and unmarried, the corporation may deduct in each year only those amounts paid during the year to the widow under the plan. Rev. Rul. 54-625, 1954-2 CB 85."
>
> The above ruling was modified . . . "Regardless of whether an employer obligates himself to pay a pension to the widow of a deceased employee over a period of years or whether such payments are contingent upon some future happening, the employer may deduct in each taxable year, only those amounts paid during the year, subject to the tests of reasonableness. Rev. Rul. 55-212, 1955-1 CB 299."

Deductibility under the 1954 Code, however, will be determined under Regulations 1.404(a)-12, relating to contributions to employee deferred compensation plans wherein is provided:

> "Similarly, if amounts are paid as a death benefit to the beneficiaries of an employee (for example, by continuing his salary for a reasonable period), and if such amounts meet the requirements of Sections 162 or 212, such amounts are deductible under Section 404(a)(5) in any case when they are not deductible under the other paragraphs of Section 404(a)."

(6) *Payments Voluntarily Made.*

In determining that the payments were gifts the Courts seemed to place great importance on the fact that the payments were voluntarily made and were not pursuant to a contract, pla[n] or agreement.

In several cases where the employ[er] had made gratuitous payments to th[e] widows of several deceased employee[s] the Commissioner contended that [a] custom had been established an[d] therefore the payments were taxab[le] because the employee presumab[ly] considered the possibility of suc[h] payments in accepting employmen[t]. However, in one such case, Ru[th] Hahn, 13 TCM 308, CCH Dec. 20,249(M), the Court said:

> "The respondent makes the further ar[-]gument, though not very strenuous[ly] that since the corporation made simil[ar] payments to the widows of other ma[n-]agement employees, it thereby esta[b-]lished a policy of such payments. On[ce] such a policy is established, the arg[u-]ment goes, a payment may be mo[re] readily considered a part of the e[m-]ployee's compensation, since bei[ng] aware of the corporation's policy t[he] employee, while working, would co[n-]sider such a payment to his widow o[ne] of his employment benefits. The pa[y-]ment here was made in 1951. Two pa[y-]ments prior to this were made in 19[..] and 1945, and one subsequent in 195[.]. We do not think that these three pa[y-]ments, without more, may be consider[ed] as establishing a policy of the corpo[ra-]tion. And even if they be so considere[d] we are not at all certain what poli[cy] they would establish: one of gift-ma[k-]ing or of paying added compensation[.]

(7) *Corporate Resolution.*

Although the corporate resolutio[ns] were cited, where such resolutio[ns] existed, the Courts seemed to ref[er] thereto more for the purpose of d[e-]termining the intent for voting su[ch] payments than to the phraseolog[y]. In fact, "intent" seemed to be t[he] deciding factor. In Arthur W. He[...]strom Est., 24 TC 916, CCH De[c.] 21,191, the Court said:

> "We think it makes little difference h[ow] the corporation formally expresses [its] motives for the payment. Where su[ch] payment is a gift, as the whole reco[rd]

here establishes that the payments in question were, it remains a gift regardless of the fact that the corporation may state its reasons for making the payment were 'because of' or 'in recognition of' or 'in consideration of' the services of the deceased employee. This seems to us the only sensible construction of the Supreme Court's language in *Bogardus* v. *Commissioner*, 302 U.S. 34, 44 (1937) (37-2 USTC Par. 9534), *wherein it said that a gift is none the less a gift because inspired by gratitude for past faithful services.''*

) *Stockholdings by Employee and/or Widow.*

Although in some of the cases the areholding of the deceased em- oyee and/or his widow were re- rred to, no great significance seemed be placed thereon. In fact, in five the cases analyzed no reference s made thereto. In those cases ere it was mentioned, the fact that e deceased employee had held a ntrolling interest of the corpora- n or that his widow fell heir to ch shares did not prevent the Court om deciding that the payments to e widow were gifts.

'The only circumstance that gives us pause is the fact that petitioner and her daughter together owned a controlling stock interest in the Company and respondent has suggested on brief that the payments were in the nature of a distribution of corporate earnings. We think this suggestion is negatived by the facts of record. Dividends were paid when warranted by earnings, and in substantial amounts. There is no evidence to show that mother and daughter took concerted action with respect to the payments and so far as the record goes, petitioner did not participate in any of the corporate action pursuant to which the payments were made.

Our conclusion that the 1951 payments were gifts, and so not includible in gross income is based on all of the facts of record.'' *Marie G. Haskell*, 14 TCM 788, CCH Dec. 21,133 (M).

Services Rendered by Widow.

deciding factor in almost every case was that the widow had rendered no services or was not expected or required to render any services in consideration for the payments, although in two cases the widow served as an employee without compensation, and as a director in several other cases.

(10) *Employee's Services Fully Compensated.*

Great weight was placed in every case on the fact that the deceased employee's services had been fully compensated, either before his death or by payment of any unpaid balance to his estate.

(11) *Commissioner's Contention.*

The Commissioner's argument or defense could not be determined in the majority of the cases, except that he contended that the payments were taxable to the widow.

In those cases, however, where there was no other specific contention, such as that the payments were dividends, inference could be drawn that the Commissioner claimed the payments to be additional compensation for past services rendered by the deceased employee.

(12) *Court's Conclusion of Law.*

In every case listed on the schedule the Courts held that the payments were gifts and therefore excludable from taxable income as provided in Section 22(b)(3) of the 1939 Internal Revenue Code for taxable years prior to 1954 and Section 102 of the 1954 Internal Revenue Code for the taxable year 1954. None of the cases involved a year after 1954.

(13) *Taxable Years Involved.*

The cases studied involved taxable years from 1948 through 1954, but since none of the employees had died after August 16, 1954, no decisions were rendered under Sec. 101(b) of the 1954 Internal Revenue Code.

In summarizing the facts which the various Courts took into consideration in determining that payments to widows of deceased employees were gifts rather than taxable income, a statement made by the Court in the Estate of Arthur W. Hellstrom, 24 TC 916, CCH Dec. 21,191, is quite inclusive. This statement was cited in various of the cases analyzed and is as follows:

> "We think the controlling facts here which establish the payment in question as a gift are that the payment was made to petitioner and not to her husband's estate; that there was no obligation on the part of the corporation to pay any additional compensation to the petitioner's husband; it derived no benefit from the payment; petitioner performed no services for the corporation and, as heretofore noted, those of her husband had been fully compensated for. We think the principal motive of the corporation in making the payment was its desire to do an act of kindness for petitioner. The payment, therefore, was a gift to her and not taxable income."

Although the statute of limitations has generally run on taxable years through December 31, 1953, in certain cases some of these years might still be open, and accordingly if a gift to a widow was included in income for any of such open years, a claim for refund could be filed to recover the tax paid thereon.

The statute has not yet run on the year 1954 and since the 1939 Code is applicable to any death benefits paid by reason of the death of an employee who died on or before August 16, 1954, the tax treatment of such death benefits will be decided under the 1939 Code. Accordingly, if a widow has paid a tax on such payments received from her deceased husband's employer by reason of his death on or before August 16, 1954, a claim for refund should be filed in order to recover the tax paid. Even thoug these payments were received in tax able years after 1954, the 1939 Cod still applies, and in view of the Cour decisions on such payments to de ceased employees' widows under th 1939 Code, any taxes applicable t such payment for such years migh possibly be recovered. Time, o course, is running short for the filin of timely claims.

Tax Treatment Under 1954 Code

Section 101(b) of the 1954 In ternal Revenue Code provides for th exclusion from gross income by th recipient of payments, but not in ex cess of $5,000.00, received from deceased employee's employer b reason of the death of the employe This exclusion does not apply, how ever, to payments to which the em ployee possessed a nonforfeitabl right at the time of his death, excep for lump sum payments receive from a "qualified" profit sharin pension, or other similar plan withi one taxable year of the recipient, o which up to $5,000.00 is excludab and the balance taxable at capit gain rates [Code Sec. 101(b)(2)(B) Neither does the exclusion apply t amounts received under a joint an survivor annuity contract if the an nuity starting date occurs before th death of the employee and where th employee was the primary annuitan [Code Sec. 101(b)(2)(C)]. The ex clusion of up to $5,000.00 does, how ever, apply to an annuity which not a joint and survivor annuity, bu only to that portion of the valu thereof which is in excess of the d ceased employee's nonforfeitab rights at the time of his death. Th amount of such exclusion will be co sidered as the cost of the annuity computing the portion of the annui payments to be included in income

he recipient. [Code Sec. 101(b)(2)(D)]. For a rather detailed discus-sion and examples of the provisions of 1954 Code Section 101(b) see the proposed regulations 1.101-2 and 1.101-3.

The 1939 Code, Section 22(b)(1) provided for a similar $5,000.00 ex-clusion of payments received from an employer by the beneficiaries of an employee by reason of the death of he employee, but only if the pay-nents received were pursuant to a ontract.

The significant differences between 954 Code Section 101(b) and 1939 Code Section 22(b)(1) are:

	1954 Code Sec. 101(b)	*1939 Code 22(b)(1)*
ontract required	No	Yes
laximum exclusion	$5,000.00 per employee	$5,000.00 per employer (thus if the employee had more than one employer the beneficiaries could collective-ly receive $5,000.000 tax free from each employer.)

The most significant provision of 954 Code Section 101(b) is that it rovides for an exclusion from gross ncome of voluntary employee death enefits of up to but not in excess of 5,000.00. Thus, it would appear that ll voluntary payments in excess of 5,000.00 made by an employer to the idow of an employee, by reason of e death of the employee, would enceforth be taxable income to the idow if the employee died after ugust 16, 1954, the effective date of e 1954 Code. But it hardly seems robable that Congress intended that ich treatment be afforded to volun-tary employer death benefits paid to an employee's widow, as such an in-tention would completely disregard the unanimity of the numerous Court decisions to the contrary. Especially is this construction improbable if one analyzes the explanation on recom-mended changes to be made by Sec. 101(b) of the 1954 Code in the report of the Congressional Committee on Ways and Means on H.R. 8300, 83rd Congress, 2nd Session, House Report No. 1337, page 14. The tenor of this report is that the intention was to liberalize the law on such payments and not to subject to tax payments which had heretofore been held to be non-taxable gifts.

"*Employee Death Benefits (Sec. 101)*

Present law provides a special exclu-sion of up to $5,000 for payments by an employer to beneficiaries of a deceased employee. Under existing law, however, this exclusion is available only where the employer is under a contractual obliga-tion to pay the death benefits. Moreover, present law has been interpreted to the effect that this exclusion is not available where an employee has a nonforfeitable right to the benefit before death.

Restricting the exemption to benefits paid under a contract discriminates against those who receive benefits where this contractual obligation does not exist. To avoid this problem your committee's bill extends this exclusion to death bene-fits whether or not paid under a contract. The bill also extends the exclusion to ap-ply to distributions under a qualified employee's profit-sharing plan, whether or not the employee had a nonforfeitable right to the amount while living, where the distributions are made by reason of the death of the employee and made within 1 taxable year after the decedent's death.

The $5,000 limit on the exclusion under present law applies to payments with re-spect to any one employer. This limita-tion can be avoided by arranging to have two or more employers each pay $5,000 of death benefits. Your committee's bill removes this avoidance device by limiting this exclusion to $5,000 with respect to the death of any employee."

It will be noted that nowhere in the explanation pertaining to the recommended changes does the Committee refer to the tax treatment of the excess over $5,000.00 of voluntary payments made to the deceased employee's beneficiary. Its very silence as to such excess can have only one acceptation and that is that it intended that no change be made in the tax free status of an employer's voluntary payments in any amount to the widow of a deceased employee. Surely, from the preceding analysis of Court cases on this subject under the 1939 Code it is apparent that the tax treatment applicable to payments in excess of $5,000.00 is much more important than the treatment of only the first $5,000.00 of such payments.

Since such payments to employees' widows have been quite consistently held to be gifts and not subject to income tax, and surely one would not imply that Congress was ignorant of such tax treatment afforded in unanimity by the Courts, it would appear that if Congress intended such a drastic change it would have specifically provided that such payments were not gifts at all, but by its legislative powers it was granting an exclusion to the first $5,000.00 thereof. Therefore, it is conceivable that if Congress had intended that a change was to be made in the income tax treatment of voluntary payments to an employee's widow it would have provided for the taxability thereof by specifically including reference to the excess of over $,5000.00 of such payments in Part II of Subchapter B of Chapter 1 of the 1954 Code. This section is entitled "Items Specifically Included in Gross Income."

It is this writer's opinion that the House Ways and Means Committee of the 83rd Congress intended to accomplish the following by its recommended changes to be made by Sec-tion 101(b) of the 1954 Code:

(a) To eliminate the discrimina-tion that existed against non-contractual employee death benefits paid to the *estate* o the deceased employee which were heretofore considered a taxable.

(b) To extend the $5,000.00 exclu-sion to "lump sum" payment from a "qualified" profit sharing, pension, or other plan in which the employee pos-sessed a nonforfeitable righ at his death, also considere as taxable heretofore.

(c) To eliminate the loop-hol under contractual payment available to employees wh worked for more than one em-ployer by arranging for suc contractual death benefit with each employer, thus dis-criminating against those em-ployees who could not effec such arrangements.

The Rodner Case

Although at this writing no Cour decision has been rendered on a cas involving an employer's voluntar payments to an employee's widov under the 1954 Code, in Betty Rod-ner, D.C., N. Y., 57-1 USTC Par 9392 involving such payments unde the 1939 Code the opinion as to th effect of the 1954 Code on such pay-ments, is as follows:

> "The Internal Revenue Code of 1954 (no applicable here) changed this. Sectio 101(b), 68A Stat. 26, . . . eliminates th provisions limiting to contractual deat benefits the application of the $5,00 exemption. To me the effect of thi would seem to be to withdraw the com-plete exemption that gratuitous deat benefits had enjoyed and to substitut an exemption up to $5,000. In the com-plete revision effected by the 1954 Cod

the general language exempting gifts is controlled by the particular language of section 101(b) limiting the exemption of death benefits to $5,000. Gifts in general are exempt but gifts in the form of death benefits are taxable insofar as they exceed $5,000.

"That does not seem to have been the view of the Senate Committee on Finance of a subsequent Congress, however. In the Report referred to, p. 14, the Committee deals with this very change and says 'The exclusion is made available regardless of whether the employer has a contractual obligation to pay the death benefits.' That language is certainly that of someone who thinks that the new provision extends a boon instead of a burden to the recipients of gratuitous death benefits. With the utmost respect, I believe that the Committee's view of the prior law was a misinterpretation. Even if the Congress itself were to solemnly declare the meaning of legislation adopted at a previous session it would have no more effect than an executive interpretation such as I. T. 4027, supra. *Fire Companies Bldg. Corp.* v. *Commissioner of Internal Revenue*, 2 Cir., 54 Fed. (2d) 488, 489 (1931 CCH Par. 9698); *American Exchange Securities Corp.* v. *Helvering*, 2 Cir., 74 Fed. (2d) 213, 214 (35-1 USTC Par. 9020). Thus I am not required to accept the interpretation of the Senate Committee and I adhere to my view that gratuitous death benefits were wholly exempt until the effective date of the Revenue Code of 1954."

If this same conclusion is reached by other District Courts when the question of taxability of such payments in excess of $5,000.00 is put to them, the cases of "Employee's Widow v. Commissioner" will cease, but until such time it is believed that litigation on this subject will continue.

ANNUAL AWARDS DINNER

Morrison Hotel, Chicago, October 15, 1957

Reading from the left: Miss Zella Hall, Clerk of the Committee on Accountancy; Louis M. Kessler, Vice-President of the Illinois Society and member of the Executive Committee, American Institute of Certified Public Accountants. C. A. Moyer, President, American Accounting Association and Head of the Department of Accountancy, University of Illinois; Robert J. Murphey, President, Illinois Society of Certified Public Accountants; John L. Carey, Executive Director, American Institute of Certified Public Accountants; Paul F. Johnson, Executive Vice-Presi-

Developments in Illinois School Auditing and Accounting in 1957

By George C. Brook

Several developments in 1957 will xert a significant influence upon chool accounting and reporting in llinois for many years in the future. 'hey are:

1. Passage by the 70th Assembly f the Annual School Audit Law Senate Bill 760).

2. Passage of laws dealing with upil transportation, high school river education, and special educa-on reimbursements.

3. Publication of *Financial Ac-ounting for Local and State School ystems.* This is a handbook on uni-orm accounting published by the . S. Office of Education.[1]

The audit law will go into effect on uly 1, 1959, but the adoption of ecommended changes in uniform chool accounting by school systems ill take a longer time. Beneficial esults of both developments will be the increased reliability of school records and increased comparability of intra-state and inter-state school records. The timing of these developments is excellent. Increased school capital outlays and school operating costs are "built-in" to our society for the forseeable future. As the percentage of the local and state tax dollar going into schools increases, the obligation is increased to provide a fuller accounting for the wise use of such funds.

Uniformity of school system account classifications, making allowances for differences in size, makes for comparability of periodic summaries. These may be integrated with confidence by the State Department of Public Instruction and state summaries passed on to the U. S. Office of Education for further integration with school financial data of all other states. In this way authentic public school accounting information will become available.

Highlights of the School Audit Law (Senate Bill 760)

Nine sections of the School Code were changed but the most important

[1] *Financial Accounting for Local and State chool Systems.* Handbook II, Bulletin 1957, o. 4 U.S. Office of Education, U.S. Government rinting Office, 1957. Cooperating associations: merican Association of School Administrators, ssociation of School Business Officials of U.S. d Canada, Council of Chief State School Offi-rs, Department of Rural Education, N.E.A., d National School Boards Association.

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change was the requirement for annual audits of school district accounts (Section 3-21). Audits are to be performed by licensed Illinois accountants employed by the school district. They are to cover the school year ended June 30th. The audit report shall

A. Include the statements required by this Act

B. Set forth the scope of the audit

C. Include the professional opinion signed by the auditor, or reasons for the denial of an opinion.

Statements required by Senate Bill 760:—Section 3-52, which deals with reports of school districts and school treasurers sets forth the statements required. They are:

A. Districts in Class I counties[2] on the accrual basis:

1. Statement of financial condition showing assets, liabilities, and fund balances on June 30th.
2. Statement showing operation of the funds for the fiscal year with a reconciliation and analysis of changes in the fund balances at the end of the period.

B. For districts on a cash basis the statement shall show the receipts and disbursements by funds including the source of receipts and purpose of disbursements along with the balance at the end of the fiscal year.

C. For all districts the statements shall show changes in bonded debt and tax warrants outstanding, and taxes received and receivable.

The County Superintendent of Schools enforces compliance of audit requirement:—The school district is obligated to provide two copies of the annual audit to the County Superin- tendent of Schools by October 15t One of these is transmitted to th State Superintendent of Public In struction by November 15th. Th State Superintendent determines th adequacy of the audit (Section 3-21

If no audit report is provided b the school district by October 15th o in a 60-day extension, the Count Superintendent:

A. Employs a licensed accountan to perform the audit and bills th school district for the cost, or

B. Sends his own personnel to mak an audit and bills the district for th cost. In this case the county superin tendent is not relieved from respons bility as to the accountability of th district.

Obligation of school district t maintain adequate records:—Sectio 2-29 of the School Code as modifie by Senate Bill 760 requires the Super intendent of Public Instruction to:

A. Formulate and approve regula tions for accounts . . . reflecting th gross amount of income and expense receipts and disbursements, and ex tending a net surplus or deficit o operating items.

B. Publish loose-leaf manuals o pamphlets on budgetary and account ing procedure, and to keep these cur rent.

C. Prepare rules and regulations o budgetary procedure and accounting These shall include a decimal classi fication of accounts.

The foregoing requirements refle the intent of the law to bring abou an accounting and budget system fo all school districts in the state. Th double-entry system is not mentione specifically giving latitude to ver small districts, but the double-entr

[2] Most counties are Class I; the only Class II counties are Cook, Madison and St. Clair.

ystem is easily applicable to the re-uired framework of accounts.

System of accounting and financial tatements:—A new paragraph was dded to the School Code (Section -6.1). Among other matters it pro-ides that either the *accrual* or *cash asis* of accounting may be used by chool districts. Once a choice is made ɔ use the accrual basis, it may not be hanged without the consent of the uperintendent of Public Instruction. Jnder the accrual system boards of ducation shall maintain records howing assets, liabilities and fund alances "in such minimum forms as nay be prescribed . . ."[3]

Financial statements are prepared y school treasurers in Class II coun-ies or by others in Class I counties nd filed with the County Superin-endent of Schools by July 15th an-ually covering the school year ended une 30th. (Section 3-52) Required eports are sent to the Superintend-nt of Public Instruction by August 5th by the County Superintendent. 'hese statements are the same as those ɔ be covered by the annual audit and ere described earlier. If reports are ot delivered to the County Superin-endent such school district shall have s portion of the state distributive und withheld until such reports are led for the ensuing year.

School statement publication:—In ddition to filing statements with the ounty superintendent and the sub-nission of these for audit by licensed ccountants, school districts are re-uired to publish statements annually 1 newspapers of general circulation Section 7-6.1).

The publication shall show (under ne accrual basis) assets, liabilities, nd fund balances; operation of each und for the year with reconciliation and analysis of changes in fund balances; changes in bonded indebtedness and tax anticipation warrants; taxes received and receivable; amounts spent per student within the major classifications; and comparisons of budgeted with actual expenditures in all operating accounts by major classifications.

Under the cash basis the published statement shall show receipts and disbursements by funds, reconciled with beginning and ending cash balances, a summary of taxes levied and collected by funds and a summary of the bonded debt and tax anticipation warrants, if any, and the changes therein.

Boards of education shall publish school statements by December 1 annually. Not later than December 15 the clerk shall file with the County Superintendent a certified statement of publication along with a copy of the newspaper containing it. If publication has not occurred by December 15th, the County Superintendent shall withhold from each treasurer any public money due to be distributed until there has been compliance.

Duties of school superintendent or principal: — The school administration is responsible for the accuracy of financial reports. The superintendent shall keep or cause to be kept the records and accounts as directed and required by the Board and aid in the making of reports (Section 7-11).

In recent years (since about 1948) the functions of a school superintendent have become general in scope. Currently they include responsibility for all phases of school operation, financial and business as well as educational. Formerly the school superintendent confined his activities to educational matters.

[3] By the Superintendent of Public Instruction.

Duties of school treasurers:—The functions or duties of school treasurers are stated in a new paragraph (Section 5-5.1). The school treasurer shall:

A. Have custody of school funds

B. Keep separate fund balances in a cash-book

C. In the cash-book for each fund he shall show beginning balance, amounts received, amounts spent and ending balance at least monthly (also stated in Section 5-15).

D. Reconcile such ending balances with the accounting department of the district.

Summary of the school audit law:—The new law has broadened the duties of the school superintendent and school treasurer, puts a greater emphasis upon accounting records, financial statements, and budgets and requires an annual audit of school statements by licensed accountants. The responsibility for enforcing compliance is placed upon the County Superintendent of Schools who may hold back state funds from the school districts until they comply. The State Superintendent of Public Instruction establishes school accounting procedures, and shall determine the adequacy of audits.

Other New School Laws Affecting School Accounting

Other laws passed recently which are of direct significance to accountants dealing with school matters are:

A. School transportation tax levies by local school districts. House bill 345 applies to districts with a population below 500,000; provides for a tax levy not to exceed 0.02%, but this may be raised to a maximum of 0.10% by referendum. A Transportation Fund is provided in the school district and costs of transportatio operation may be paid. The Stat reimburses the school district up t 50% of transportation costs or les according to formula. This law wa effective on September 1, 1957.

B. Driver education laws. Hous bills 622, 623, and 624 provide fo the establishment and financing of high school driver education progran Revenue for the State Treasury nev Drivers' Education Fund is provide by increasing fees for drivers' li censes by $2.00 and using this in crease for driver education.

High school driver educatio courses would be open to all resident in the school district between age 15-21. The state will reimburse cost up to $30.00 for each pupil who fin ishes the prescribed course. Thes laws were in effect on July 9, 1957.

C. Special education reimburse ments. House bill 422 changed th grouping of handicapped pupils an also the basis of reimbursement. Th new grouping is: (1) physicall handicapped other than those with speech defect; (2) maladjusted chil dren; (3) educable mentally handi capped children, (4) trainable men tally handicapped children; (5 speech defective children; and (6 multiple handicapped children. Blin and deaf formerly in separate cate gories are now included with phys ically handicapped.

The new basis of reimbursement is for each professional worker the an nual sum of $3,000; for transporta tion of children in the six group one-half the cost but not exceedin $400 yearly; for hospitalized or home bound eligible physically handi capped, $1,500 for each teacher an nually but not more than $300 pe child.

There were many more school laws assed by the 70th Assembly providg for bond isues, changes in maxiium tax rates, fixing minimum teachrs' salaries, requiring physical exminations of all pupils prior to en:ance to kindergarten, changes in hysical education requirements and thers.

NIFORM ACCOUNTING FOR OCAL AND STATE SCHOOL SYSTEMS

For a number of years the U. S. ffice of Education gathered annual nancial data from three groups of *rge cities* for the purpose of showing omparative operating expenditures er pupil with subdivisions according the following classification of exenditures:

A. Instruction

B. Operation

C. Maintenance

D. Administration

E. Co-ordinate Activities

F. Auxiliary Services

G. Fixed Charges

number of states followed this rouping in varying degrees.

The financial accounting handbook as prepared for the guidance of local and State school systems. It took two years to develop the handbook through three preliminary editions. The purpose of the five large educational groups cooperating in the project was to bring about the universal use of:

A. Standard receipt and expenditure accounts

B. Standard terminology "to insure appropriate initial recording of financial data, improve the accounting for school funds, improve school budgeting, and establish a basis for cost accounting."

The accounts presented in the handbook are for use with either the cash basis, modified cash basis, or accrual basis. They are suitable also to either single or double-entry bookkeeping. Minimum account titles are provided with possibilities for expansion under each heading according to size and need of the school system.

Every encouragement should be given to the State Superintendent of Public Instruction to adopt the handbook as the standard accounting manual in all the school systems in Illinois. This will help the auditor in the conduct of school audits in that adequate accounting will make auditing easier.

Administration of the Illinois Municipal Auditing Law

By H. T. Scovill

Auditor of Public Accounts

Much material has been presented to readers and listeners in the last twenty months about the office of the Auditor of Public Accounts in Illinois. Very little of the material, however, has related to one of the new units of the Department which is destined to have a wide-spread influence on the business affairs of cities and villages of the State. I refer to the Municipal Audit Division which was created in 1951 to administer the Illinois Municipal Auditing Law, when the latter was passed by the General Assembly.

Illinois Society of C.P.A.s and Others

Certified Public Accountants will also have well defined responsibilities in the application of the Law. Members of the Illinois Society of Certified Public Accountants have previously been informed about some of the problems encountered by the profession in the early years of the Law through the medium of The Illinois Certified Public Accountant in Volume XVIII No. 2 Winter, 1955-56. Two "charter" members of the Municipal Audit Advisory Board, Messrs. Waldo Mauritz and C. J. Schlosser submitted authoritative factual material about the Law and told of some of its aims and objectives. In general, they covered the composition of the Municipal Audit Advisory Board; the assertion that "contracts for the performance of audits required by this Act may be entered into without competitive bidding"; the nature of Supplemental Reports required of all but the smallest cities or villages (without utilities); the cooperation of the Illinois Municipal League, the State Chamber of Commerce, and the Illinois Society of CPAs; the necessity of informing municipal officials of values that can be derived from independent audits; and the adequacy of financial statements, scope of audits and opinions of the independent auditor.

This article deals with some of the problems that have arisen in the administration of the Act, and some of the opportunities which the Act offers for city and village officials to obtain information that will help them ma-

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rially in serving their communities.

Fundamentally the Illinois Muni-pal Auditing Law is not a regula-ry Act. As its name implies, it is auditing act with strong sugges-ons that the audited accounts can rnish data to municipal officials and State officials for comparative pur-oses.

hree Main Objectives in the Law

The Law seems to imply only three ain objectives or benefits to the tizens of the municipality con-rned, namely:

I. Preparation and Audit of annual ancial statements of condition and erations.

Sec. 5 makes mandatory the pre-ntation of audited financial state-ents of the usual type, bearing the inion (or denial of opinion) of the dependent accountant.

II. Provision for making the aud-ed financial statements available for spection of citizens of the munici-lity concerned.

Sec. 6 provides that not less than vo copies of the audit report signed the independent accountant "shall mediately be filed with the mu-cipality audited. The municipality all immediately make one copy of id report . . . a part of its public cords and at all times thereafter is copy shall be open to public in-ection. In addition, the municipal-y shall file one copy of said report ith the Auditor" (of Public Ac-unts.)

III. Provision for comparing re-lts of operation and financial con-tion of a given municipality with ose of any other in the State.

Sec. 6 further says, "The Auditor all compile and publish annually, pamphlet form, a state-wide sum-ary of the financial status of the several municipalities, as indicated by the report of the audits and supplemental information in connection therewith."

Types of Reports

There are three types of reports required by the Act either arising from the audit of accounts, or accepted in lieu of a formal audit, namely:

1. The "audit report." This "means the written report of the accountant or accountants and all appended statements and schedules relating thereto presenting or recording the findings of an examination or audit of the financial transactions, affairs, or condition of a municipality."

2. The "annual report." Section 2 of the Act says that this "means the statement filed, in lieu of an audit report by the municipalities of less than 500 population, which do not own or operate public utilities."

3. The "supplemental report." This "means the annual statement filed, in addition to any audit report provided for herein, by all municipalities, except municipalities of less than 500 population which do not own or operate public utilities."

The General Assembly in framing the Act in 1951 and in amending it in 1955 and 1957 probably had been advised of some unusual situations with respect to municipally owned public utilities, because it seems that several important requirements of the Act hinge on the status of a given municipality with respect to its ownership or operation of some kind of public utility. Only in the case of a very small city or village, which also does not own or operate a public utility, is a municipality freed from submitting rather extensive account-

ing or statistical data annually to the Illinois Auditor of Public Accounts. The table below reflects the extent to which the two lines of demarcation prevail, (a) the 500 population factor and (b) ownership or operation of a public utility:

Legal Status concerning 500 population and a utility	Requirements of the Act with respect to the filing of Reports with the Auditor of Public Accounts
I Above 500, with utility	Both an annual audit report and supple mental report required
II Above 500, without utility	Audit report required only in odd-numbere years; supplemental report required an nually
III Below 500, with utility	Annual audit report required. Supplementa report required annually
IV Below 500, without utility	Annual report (non-accounting) in lieu o audit report is possible. Supplemental re port not required

Those engaged either directly or indirectly in the administration of the Municipal Auditing Law have had several controversial items or situations to deal with in trying to evolve some reasonable practices that can reflect good accounting and auditing applicable to large and small municipalities and utilities. Here are some of the difficulties or uncertainties.

Some Special Difficulties

The tabulation above reveals a phraseology in the Act which we believe was not intentional. Municipalities in group III seem to have more rigid requirements than those in group II. In other words, several cities in Illinois (III) must have *annual* audits, while several larger cities in group II must have audits only in odd years.

The statute provides that "The audit herein required shall include all of the accounts and funds of the municipality." Until some better criterion is made available to the administrators of the Law the word "all" will probably be used in it most obvious interpretation.

Public utilities seem to play suc an important part in the administra tion of the municipal audit law tha any public accountant who accept opportunities to audit municipalitie should also be prepared to audit th accounts of municipally owned utili ties. The situation with respect t such utilities, however, is about lik that of the accounts of the municipa governments themselves. In both cases, there have been so few unit (local governments and municipally owned utilities) having their account audited regularly in the past decade by independent certified public ac countants that the new municipa audit law found the State of Illinoi very poorly staffed with CPAs either in Cook County or downstate to meet the demands of the Act.

Accordingly it seemed that th State Auditor of Public Accounts and his Advisory Board were con fronted with a two-fold job of edu cation. It seemed necessary to pro vide city officials with basic materia about audits and auditors, and t channel to public accountants some fundamentals about municipal gov ernment and municipal accounts and reports along with special audit pro cedures therefor. It was necessary t remind both groups of the existenc

f the code of ethics for certified pubic accountants, even though the Act tself provides, as previously cited ierein, that "contracts may be enered into without competitive bidling."

Fortunately, there have been withn the State of Illinois during the ast several decades some very well nformed CPAs. Some of these in heir respective areas are now very ielpful to the State Auditor in formuating patterns of principle and proedure under the Municipal Audit Act. By adopting a policy of slow ut substantial progress from year o year those who administer the Act eel that ultimately, within a very ew years, there will be a smoothly ooperating group of accountants and ity officials participating in operatng under the Municipal Auditing aw.

Many Qualified Double Entry Bookkeepers

These comments about city officials ind accountants should not be contrued as indicating a great shortage f good city officials or accountants. There are many excellent, conscienious city officials in Illinois and many CPAs who have at sometime in the ast familiarized themselves with muicipal accounting, but who, for sevral years at least, have not been isked by city officials to audit city ccounts. No certified public accountint, it seems, works on an auditing ngagement without being asked to lo so by proper authority. After nly about three or four years of ictive operation of the Law, much mprovement has been observed, but nore can be expected.

As stated previously, uniformity of eporting by the city officials is being ffected gradually, both in the "audit report" and in the "supplemental report," even though this is not a regulatory Act. It is the hope of the author that double entry bookkeeping for the several funds will become common practice, and that adequate property control can become an appropriate part of the system. There are many cities and villages in Illinois in which a part-time bookkeeper could easily be available and meet the requirements. School systems in Illinois are using many young women (married or unmarried) in the teaching and clerical positions. Many of the available young women have studied bookkeeping in high schools or in universities. We are told on good authority that in such courses only double entry bookkeeping is taught in modern curricula.

Depreciation as a Cost

Some accountants as well as city officials seem to make the assumption that Fixed Fund balance sheets cannot be prepared without setting up depreciation as an *operating expense.* Some seem to feel also that a double entry bookkeeping system cannot be operated where the cash, rather than the accrual, basis of accounting is used. Some of these simplifications can be effected in the small localities, for government records, if not for local utilities. In the latter case a complete commercial set of double entry books is recommended. A special bulletin on Municipally Owned Water Utilities will probably be issued by the State Auditor of Public Accounts in the near future.

Property Accounting

Relative to the accounting and reporting phases of the problem of property accounting, one of the most recent books on the general subject

seems to support the principles that have prevailed for three or four decades. A few details in phraseology may differ, but the final portrayal in the financial reports and books of record is the same as quoted below.

"Costs of assets acquired through general fund appropriations are considered to be an expense, just as are all other appropriation expenditures of that fund. *The assets so acquired are not dropped from accountability* merely because they are expenses of the general fund. Their cost is recorded in a property fund as described later (in the next chapter.)[1]"

"*Status of Property Accounting.* Control of the custody and use of property is probably the most neglected area of governmental accounting. *The loss to taxpayers* of government assets *through theft, petty pilferage and lack of maintenance* is incalculable. Numerous reasons for this condition exist."[2]

"*Accounting for General Fixed Assets.* The acquisition of general fixed assets is financed by (a) general fund appropriations, (b) the issuance of bonds, or (c) the levy of special assessments. Regardless of the method of financing, the asset acquired is not an asset of the financing fund."

"Asset accounts maintained in the property fund will include whatever accounts are necessary in light of the nature of the assets. Land, buildings, structures and improvements, equipment, road machinery and office furniture and fixtures are typical groupings. These accounts should be supported by detail records. Net worth accounts reflect the source of the financing."[3]

[1] Accounting in the Federal Government, Kohler & Wright, page 30.

[2] *Ibid* page 49.

[3] *Ibid* page 51.

"If an asset is purchased, its cost is recorded in the property records at the time of acquisition. The asset account is debited while the investment-in-fixed-assets account representing the financing fund is credited. This entry is in addition to the closing-out entry required in the financing fund. If the asset is constructed the entry in the property records should echo those made in the financing fund.

"Property-records B/S consists of the fixed-asset grouping and their costs, while the proprietorship section displays the contributions from the various investment-in-fixed-assets accounts."[4]

Modified Opinion of Accountant

As this issue of The Illinois Certified Public Accountant is about to go to press, Bulletin No. 28, October 1957, of the American Institute of Certified Public Accountants on Special Reports is received. It deals with applicability of existing scope and opinion paragraphs of audited statements. After a reasonable introduction of the subject, and a definition of some terms it says, among other things, that "Special Reports may include:

"Reports on financial statements of some nonprofit organizations which follow accounting practices differing in some respects from those followed by business enterprises organized for profit. These organizations *may* include municipalities, hospitals, cooperatives, and educational institutions."

Statement No. 28 on Auditing Procedure then proceeds to discuss a possible change in the opinion in these words including an explanation:

[4] *Ibid* page 51.

"In reporting on statements pre-pared on a cash basis (or substantial-y so) which nevertheless may appear o present financial position and re-ults of operations, disclosure should rdinarily be made in the statements r their footnotes or, less preferably, n the auditor's report, (a) of the act that the statements have been prepared on the basis of cash receipts nd disbursements and (b) of the eneral nature of any material items mitted (such as accounts receivable nd accounts payable) and, where practicable, of the net effect of such missions on the statements. The uditor's opinion might then be word-d somewhat as follows:

" 'In our opinion, the accompany-ng statements present fairly the as-ets and liabilities of the XYZ Company, at December 31, 19—, arising from cash transactions, and the revenues collected and expenses disbursed by it (and changes in proprietary interest, fund balances, etc., where reflected in cash basis statements) during the year then ended, on a basis consistent with that of the preceding year.'

"Notwithstanding the foregoing, where the auditor thinks that misleading inferences may still be drawn from the statements, he should include an explanation in his report that the statements do not present financial position and results of operations."

The proposal in Bulletin 28 should be watched with considerable interest by those associated in any way with the Illinois Municipal Audit Law.

An Opportunity For Service

By Lloyd Morey

The Illinois Society of Certified Public Accountants is honored by having one of its well regarded members, Mr. Frank H. Whitney of Springfield, appointed by Governor William G. Stratton to the important new post of Auditor General of the State of Illinois.

This Office was created by the last General Assembly on the recommendation of the Governor, the writer, and others, including numerous Society members. It occupies a key position in the State's fiscal reorganization relating to improved financial control and modernization. The primary function of the Office is to provide an independent post-audit of all officers, departments, and funds of the State.

The services of public accountants will be extensively required for the successful fulfillment of this program and Auditor Whitney should receive the support, interest, and cooperation of all members of the Illinois Society. This will be continuously essential if the Office is to measure up to its expectations and if our Society is to make that professional contribution to improved public service which the people of the State as a whole have a right to expect.

LLOYD MOREY is former Auditor of Public Accounts of the State of Illinois. President and Professor of Accountancy, Emeritus, of the University of Illinois, Dr. Morey also served for many years as Comptroller of the University and is a former president of the Illinois Society of Certified Public Accountants.

Successful Candidates Who Passed The May 1957 CPA Examination

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Harold Axel Ahlbeck
Frederick James Ahlberg
Henry Allovio, Jr.
Jack Garrett Anderson
Raymond Thomas Anderson
Donald Joseph Bachner
William Thomas Barker
Harlan James Behnke
Johnston Barber Bell
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Cecil Isaac Bogan
Basil Owen Booton
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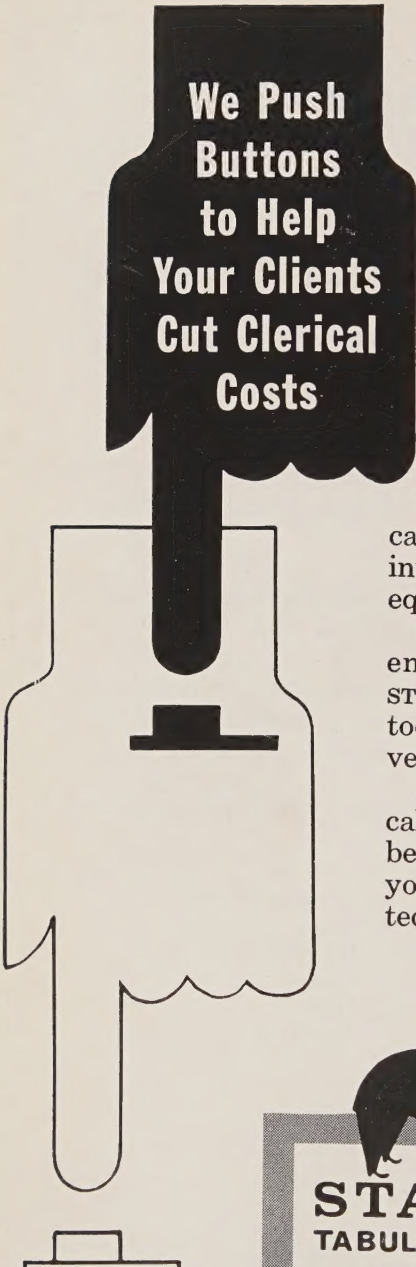

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